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February 24, 1999

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**Memorandum of Ex Parte Communication**

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

Ms. Magalie Salas  
Secretary  
Federal Communications Commission  
445 12<sup>th</sup> Street, S. W.  
Street Lobby – TW A235  
Washington, D.C. 20554

Dear Ms. Salas:

Re: *CC Docket No. 96 - 45 - Universal Service*  
*CC Docket No. 97 - 160 - Forward-Looking Mechanism for Non-Rural LECs*

On Tuesday, February 23, 1999, Mr. Dale Robertson, Senior Vice President – FCC for SBC Telecommunications, Inc. ("SBC"), Mr. David Hostetter, Director – Regulatory Policy and the undersigned met with Mr. Larry Strickling, Mr. Don Stockdale, Mr. Rich Lerner and Mr. Craig Brown regarding Universal Service and discussed the above-listed proceedings. A service-specific analysis of the costs and revenues impacting the provision of universal service was presented. The attached materials representing service-specific costs and revenues by exchange location were distributed during the meeting.

We are submitting the original and one copy of this Memorandum to the Secretary in accordance with Section 1.1206(b)(2) of the Commission's rules. Please stamp and return the provided copy to confirm your receipt. Please contact me at (202) 326-8889 should you have any questions.

Sincerely,

A handwritten signature in cursive script, appearing to read "Jay Bennett".

No. of Copies rec'd 073  
List ABOVE

cc (w/o attachments): L. Strickling, D. Stockdale, R. Lerner, C. Brown

**SBC Universal Service Study**  
**Residence Monthly Per Line Revenues and Operating Costs**

**Report 1**  
**December 14, 1998**

Texas	Universal Service					Vertical Service		Intrastate Toll		Intrastate Switched Access		Interstate Switched Access		
	Residence Lines	Revenue		Cost								Switching and Transport		CCL Revenue
		Intrastate	Interstate	Intrastate	Interstate	Revenue	Cost	Revenue	Cost	Revenue	Cost			
Wire Center	A	B	C	D	E	F	G	H	I	J	K	L	M	N
Houston - 1	62,287	\$14.01	\$3.68	\$18.37	\$3.96	\$7.16	\$0.58	\$1.23	\$0.76	\$7.30	\$0.98	\$3.97	\$1.91	\$1.49
Dallas - 1	34,852	\$15.03	\$3.61	\$21.18	\$4.74	\$6.42	\$0.58	\$1.55	\$0.88	\$5.65	\$1.13	\$4.43	\$2.22	\$1.70
Dallas - 2	40,967	\$16.06	\$3.64	\$21.22	\$4.89	\$7.59	\$0.58	\$1.77	\$0.89	\$4.78	\$1.14	\$3.07	\$2.24	\$1.18
Houston - 2	12,458	\$13.43	\$3.46	\$33.04	\$5.55	\$8.77	\$0.58	\$2.23	\$1.31	\$7.07	\$1.69	\$3.66	\$3.31	\$1.40
San Antonio - 1	21,501	\$12.51	\$3.28	\$35.86	\$6.01	\$7.67	\$0.58	\$0.97	\$1.42	\$12.47	\$1.83	\$4.23	\$3.59	\$1.18
Austin	32,307	\$10.71	\$3.47	\$37.49	\$9.46	\$5.22	\$0.58	\$0.87	\$1.59	\$8.30	\$2.05	\$3.11	\$4.02	\$1.19
Rural - 1	1,737	\$11.58	\$3.42	\$41.24	\$11.24	\$6.28	\$0.58	\$2.36	\$1.78	\$7.97	\$2.29	\$2.13	\$4.50	\$0.75
San Antonio - 2	3,678	\$13.22	\$3.41	\$49.25	\$11.94	\$4.04	\$0.58	\$1.54	\$2.08	\$4.08	\$2.67	\$1.80	\$5.24	\$0.64
Rural - 2	213	\$16.92	\$3.73	\$118.75	\$34.57	\$3.64	\$0.58	\$5.91	\$5.21	\$7.99	\$6.70	\$5.25	\$13.13	\$1.62
Rural - 3	90	\$15.18	\$3.16	\$181.21	\$54.93	\$3.16	\$0.58	\$10.79	\$8.02	\$11.56	\$10.32	\$2.95	\$20.23	\$0.94

**SBC Universal Service Study**  
**Residence Annual Revenues and Operating Costs**

**Report 2**  
**December 14, 1998**

Texas	Universal Service				Vertical Service		Intrastate Toll		Intrastate Switched Access		Interstate Switched Access			
	Revenue		Cost								Switching and Transport		GCL Revenue	
	Intrastate	Interstate	Intrastate	Interstate										
	Report 1: A * B * 12	Report 1: A * C * 12	Report 1: A * D * 12	Report 1: A * E * 12	Report 1: A * F * 12	Report 1: A * G * 12	Report 1: A * H * 12	Report 1: A * I * 12	Report 1: A * J * 12	Report 1: A * K * 12	Report 1: A * L * 12	Report 1: A * M * 12	Report 1: A * N * 12	
Wire Center	C	D	E	F	G	H	I	J	K	L	M			
Houston - 1	\$10,471,838	\$2,751,274	\$13,733,397	\$2,958,958	\$5,351,560	\$436,939	\$922,204	\$566,829	\$5,455,840	\$729,440	\$2,970,867	\$1,429,965	\$1,117,173	
Dallas - 1	\$6,284,420	\$1,511,297	\$8,858,553	\$1,982,724	\$2,686,888	\$244,484	\$647,843	\$368,141	\$2,363,470	\$473,753	\$1,853,487	\$928,728	\$712,328	
Dallas - 2	\$7,893,735	\$1,787,362	\$10,434,165	\$2,402,824	\$3,732,042	\$287,381	\$869,012	\$435,911	\$2,351,624	\$560,964	\$1,509,465	\$1,099,692	\$582,514	
Houston - 2	\$2,007,612	\$516,575	\$4,939,082	\$829,960	\$1,311,722	\$87,392	\$333,066	\$195,902	\$1,056,705	\$252,102	\$547,816	\$494,210	\$209,157	
San Antonio - 1	\$3,228,856	\$847,307	\$9,253,003	\$1,551,385	\$1,977,771	\$150,828	\$250,102	\$366,889	\$3,216,141	\$472,141	\$1,090,906	\$925,568	\$303,421	
Austin	\$4,152,445	\$1,344,614	\$14,535,534	\$3,666,226	\$2,022,701	\$226,631	\$338,882	\$618,084	\$3,217,091	\$795,399	\$1,204,624	\$1,559,270	\$462,522	
Rural - 1	\$241,364	\$71,382	\$859,567	\$234,298	\$130,954	\$12,185	\$49,245	\$37,145	\$166,157	\$47,801	\$44,382	\$93,707	\$15,637	
San Antonio - 2	\$583,421	\$150,706	\$2,173,564	\$526,774	\$178,297	\$25,801	\$67,999	\$91,696	\$180,266	\$118,002	\$79,260	\$231,327	\$28,163	
Rural - 2	\$43,242	\$9,533	\$303,526	\$88,364	\$9,299	\$1,494	\$15,114	\$13,308	\$20,433	\$17,125	\$13,422	\$33,572	\$4,143	
Rural - 3	\$16,397	\$3,416	\$195,708	\$59,322	\$3,410	\$631	\$11,649	\$8,660	\$12,488	\$11,145	\$3,182	\$21,847	\$1,016	
State Totals	\$1,029,809,191	\$246,588,065	\$1,988,220,329	\$449,764,132	\$473,136,097	\$40,716,219	\$155,178,865	\$82,787,560	\$485,233,000	\$106,537,579	\$211,185,162	\$208,852,112	\$76,752,507	

**SBC Universal Service Study**  
**Residence Monthly Per Line Operating Margin**

**Report 3**  
**December 4 1998**

Texas	Residence Universal Service										Vertical Service Gross Margin per Line	Intrastate Toll Gross Margin per Line	Intrastate Switched Access Gross Margin per Line	Interstate Switching and Transport Margin per Line	Interstate CCL Revenue per Line	Total Residence Operating Margin per Line
	Residence Lines	Intrastate Monthly Universal Service Cost/Revenue Calculations			Intrastate Monthly Universal Service Cost/Revenue Calculations			Intrastate Monthly Universal Service Cost/Revenue Calculations								
Average Cost per Line		Average Revenue per Line	Intrastate Gross Margin per Line	Average Cost per Line	Average Revenue per Line	Intrastate Gross Margin per Line	Average Cost per Line	Average Revenue per Line	Intrastate Gross Margin per Line							
Report 1: D		Report 1: B	F - E	Report 1: B	Report 1: D	F - E	Report 1: B	Report 1: D	F - E	Report 1: F - G	Report 1: H - I	Report 1: J - K	Report 1: L - M	Report 1: N	D - E - F - G - H - I - J - K - L - M - N - O - P	
Wire Center	A	E	F	G	H	I	J	K	L	M	N	O	P			
Houston - 1	62,287	\$22.33	\$17.69	(\$4.64)	\$ 18.37	\$ 14.01	(\$4.36)	\$ 3.96	\$ 3.68	(\$0.28)	\$ 6.58	\$0.48	\$6.32	\$2.06	\$ 1.49	\$12.29
Dallas - 1	34,852	\$25.92	\$18.64	(\$7.28)	\$ 21.18	\$ 15.03	(\$6.15)	\$ 4.74	\$ 3.61	(\$1.13)	\$ 5.84	\$0.67	\$4.52	\$2.21	\$ 1.70	\$7.66
Dallas - 2	40,967	\$26.11	\$19.69	(\$6.42)	\$ 21.22	\$ 16.06	(\$5.17)	\$ 4.89	\$ 3.64	(\$1.25)	\$ 7.01	\$0.88	\$3.64	\$0.83	\$ 1.18	\$7.13
Houston - 2	12,458	\$38.59	\$16.88	(\$21.71)	\$ 33.04	\$ 13.43	(\$19.61)	\$ 5.55	\$ 3.46	(\$2.10)	\$ 8.19	\$0.92	\$5.38	\$0.36	\$ 1.40	(\$5.46)
San Antonio - 1	21,501	\$41.88	\$15.80	(\$26.08)	\$ 35.86	\$ 12.51	(\$23.35)	\$ 6.01	\$ 3.28	(\$2.73)	\$ 7.08	(\$0.45)	\$10.64	\$0.64	\$ 1.18	(\$7.00)
Austin	32,307	\$46.95	\$14.18	(\$32.77)	\$ 37.49	\$ 10.71	(\$26.78)	\$ 9.46	\$ 3.47	(\$5.99)	\$ 4.63	(\$0.72)	\$6.25	(\$0.91)	\$ 1.19	(\$22.33)
Rural - 1	1,737	\$52.48	\$15.00	(\$37.47)	\$ 41.24	\$ 11.58	(\$29.66)	\$ 11.24	\$ 3.42	(\$7.82)	\$ 5.70	\$0.58	\$5.68	(\$2.57)	\$ 0.75	(\$27.13)
San Antonio - 2	3,678	\$61.18	\$16.63	(\$44.55)	\$ 49.25	\$ 13.22	(\$36.03)	\$ 11.94	\$ 3.41	(\$8.52)	\$ 3.46	(\$0.54)	\$1.41	(\$3.45)	\$ 0.64	(\$43.03)
Rural - 2	213	\$153.32	\$20.65	(\$132.67)	\$ 118.75	\$ 16.92	(\$101.83)	\$ 34.57	\$ 3.73	(\$30.84)	\$ 3.05	\$0.71	\$1.29	(\$7.88)	\$ 1.62	(\$133.88)
Rural - 3	90	\$236.14	\$18.34	(\$217.79)	\$ 181.21	\$ 15.18	(\$166.03)	\$ 54.93	\$ 3.16	(\$51.76)	\$ 2.57	\$2.77	\$1.24	(\$17.28)	\$ 0.94	(\$227.55)

**SBC Universal Service Study  
Residence Annual Operating Margin**

**Report 4  
December 14, 1998**

<b>Texas</b>			<b>Universal Service</b>								
<b>Wire Center</b>	<b>Residence Lines</b>	<b>Total Lines</b>	<b>Intrastate Gross Margin</b>	<b>Interstate Gross Margin</b>	<b>Total Universal Service Gross Margin</b>	<b>Vertical Service Gross Margin</b>	<b>Intrastate Toll Gross Margin</b>	<b>Intrastate Switched Access Gross Margin</b>	<b>Interstate Switching and Transport Margin</b>	<b>Interstate CCL Revenue</b>	<b>Total Residence Operating Margin</b>
			<b>A * (Report 3: C) * 12 months</b>	<b>A * (Report 3: D) * 12 months</b>	<b>A * (Report 3: E) * 12 months</b>	<b>A * (Report 3: K) * 12 months</b>	<b>A * (Report 3: L) * 12 months</b>	<b>A * (Report 3: M) * 12 months</b>	<b>A * (Report 3: N) * 12 months</b>	<b>Report 2: M</b>	<b>Report 3: F</b>
			<b>A</b>	<b>B</b>	<b>C</b>	<b>F</b>	<b>G</b>	<b>H</b>	<b>I</b>	<b>J</b>	<b>F</b>
Houston - 1	62,287	118,486	(\$3,261,559)	(\$207,685)	(\$3,469,244)	\$4,914,621	\$355,376	\$4,726,401	\$1,540,901	\$1,117,173	\$9,185,228
Dallas - 1	34,852	55,775	(\$2,574,134)	(\$471,428)	(\$3,045,561)	\$2,442,404	\$279,702	\$1,889,716	\$924,759	\$712,328	\$3,203,348
Dallas - 2	40,967	56,938	(\$2,540,430)	(\$615,460)	(\$3,155,892)	\$3,444,662	\$433,102	\$1,790,660	\$409,772	\$582,514	\$3,504,818
Houston - 2	12,458	20,056	(\$2,931,470)	(\$313,385)	(\$3,244,855)	\$1,224,330	\$137,164	\$804,603	\$53,606	\$209,157	(\$815,005)
San Antonio - 1	21,501	72,036	(\$6,024,147)	(\$704,079)	(\$6,728,226)	\$1,826,943	(\$116,787)	\$2,743,999	\$165,338	\$303,421	(\$1,805,311)
Austin	32,307	43,040	(\$10,383,089)	(\$2,331,612)	(\$12,704,701)	\$1,796,070	(\$279,202)	\$2,421,692	(\$354,646)	\$462,522	(\$8,658,265)
Rural - 1	1,737	2,223	(\$618,203)	(\$162,916)	(\$781,119)	\$118,769	\$12,100	\$118,356	(\$49,325)	\$15,637	(\$565,581)
San Antonio - 2	3,678	3,989	(\$1,590,143)	(\$376,068)	(\$1,966,211)	\$152,496	(\$23,698)	\$62,264	(\$152,068)	\$28,163	(\$1,590,051)
Rural - 2	213	249	(\$260,284)	(\$78,832)	(\$339,115)	\$7,804	\$1,807	\$3,307	(\$20,149)	\$4,143	(\$342,203)
Rural - 3	90	105	(\$179,312)	(\$55,906)	(\$235,218)	\$2,778	\$2,988	\$1,344	(\$18,665)	\$1,016	(\$245,757)
<b>State Totals</b>	<b>5,804,225</b>	<b>8,719,326</b>	<b>(\$958,411,138)</b>	<b>(\$203,176,067)</b>	<b>(\$1,161,587,205)</b>	<b>\$432,419,878</b>	<b>\$72,391,305</b>	<b>\$378,695,422</b>	<b>\$2,333,050</b>	<b>\$76,752,507</b>	<b>(\$198,995,043)</b>

**SBC Universal Service Study**  
**Business Monthly Per Line Revenues and Operating Costs**

**Report 5**  
**December 14, 1998**

Texas	Universal Service					Vertical Service		Intrastate Toll		Intrastate Switched Access		Interstate Switched Access		
	Business Lines	Revenue		Cost								Switching and Transport		CCL Revenue
		Intrastate	Interstate	Intrastate	Interstate	Revenue	Cost	Revenue	Cost	Revenue	Cost	Revenue	Cost	
Wire Center	A	B	C	D	E	F	G	H	I	J	K	L	M	N
Houston - 1	56,199	\$66.94	\$5.84	\$18.37	\$3.96	\$4.12	\$0.58	\$1.19	\$0.76	\$7.02	\$0.98	\$3.82	\$1.91	\$1.44
Dallas - 1	20,923	\$33.76	\$5.72	\$21.18	\$4.74	\$4.77	\$0.58	\$2.04	\$0.88	\$7.43	\$1.13	\$5.83	\$2.22	\$2.24
Dallas - 2	15,971	\$33.89	\$5.81	\$21.22	\$4.89	\$3.52	\$0.58	\$2.33	\$0.89	\$6.32	\$1.14	\$4.05	\$2.24	\$1.56
Houston - 2	7,598	\$47.15	\$5.78	\$33.04	\$5.55	\$3.88	\$0.58	\$0.89	\$1.31	\$2.81	\$1.69	\$1.46	\$3.31	\$0.56
San Antonio - 1	50,535	\$34.55	\$6.07	\$35.86	\$6.01	\$3.38	\$0.58	\$1.43	\$1.42	\$18.43	\$1.83	\$6.25	\$3.59	\$1.74
Austin	10,733	\$31.10	\$5.85	\$37.49	\$9.46	\$3.76	\$0.58	\$1.33	\$1.59	\$12.62	\$2.05	\$4.73	\$4.02	\$1.81
Rural - 1	486	\$22.68	\$6.11	\$41.24	\$11.24	\$2.01	\$0.58	\$2.77	\$1.78	\$9.33	\$2.29	\$2.49	\$4.50	\$0.88
San Antonio - 2	311	\$29.54	\$6.44	\$49.25	\$11.94	\$2.24	\$0.58	\$1.54	\$2.08	\$4.08	\$2.67	\$1.79	\$5.24	\$0.64
Rural - 2	36	\$53.58	\$7.01	\$118.75	\$34.57	\$6.14	\$0.58	\$2.27	\$5.21	\$3.07	\$6.70	\$2.02	\$13.13	\$0.62
Rural - 3	15	\$57.79	\$5.81	\$181.21	\$54.93	\$1.07	\$0.58	\$8.06	\$8.02	\$8.64	\$10.32	\$2.20	\$20.23	\$0.70

**SBC Universal Service Study**  
**Business Annual Revenues and Operating Costs**

**Report 6**  
**December 14, 1998**

Texas	Universal Service				Vertical Service		Intrastate Toll		Intrastate Switched Access		Interstate Switched Access		
	Revenue		Cost										
	Intrastate	Interstate	Intrastate	Interstate							Revenue	Cost	Revenue
	Report 5: A * B * 12	Report 5: C * D * 12	Report 5: A * D * 12	Report 5: A * E * 12	Report 5: A * F * 12	Report 5: A * G * 12	Report 5: A * H * 12	Report 5: A * I * 12	Report 5: A * J * 12	Report 5: A * K * 12	Report 5: A * L * 12	Report 5: A * M * 12	Report 5: A * N * 12
Wire Center	B	C	D	E	F	G	H	I	J	K	L	M	
Houston - 1	\$45,142,443	\$3,937,418	\$12,391,079	\$2,669,747	\$2,777,078	\$394,232	\$800,693	\$511,426	\$4,736,970	\$658,144	\$2,579,421	\$1,290,199	\$969,972
Dallas - 1	\$8,477,217	\$1,435,736	\$5,318,131	\$1,190,306	\$1,197,906	\$146,773	\$511,659	\$221,009	\$1,866,642	\$284,412	\$1,463,863	\$557,551	\$562,589
Dallas - 2	\$6,495,158	\$1,113,834	\$4,067,763	\$936,742	\$674,469	\$112,035	\$447,264	\$169,940	\$1,210,337	\$218,692	\$776,893	\$428,715	\$299,809
Houston - 2	\$4,298,525	\$527,069	\$3,012,293	\$506,184	\$353,920	\$53,299	\$80,821	\$119,478	\$256,419	\$153,754	\$132,932	\$301,413	\$50,754
San Antonio - 1	\$20,954,764	\$3,682,874	\$21,747,849	\$3,646,308	\$2,051,252	\$354,499	\$868,990	\$862,319	\$11,174,642	\$1,109,700	\$3,790,407	\$2,175,413	\$1,054,250
Austin	\$4,005,695	\$753,838	\$4,828,981	\$1,217,990	\$484,457	\$75,291	\$171,247	\$205,339	\$1,625,689	\$264,247	\$608,731	\$518,019	\$233,726
Rural - 1	\$132,251	\$35,614	\$240,501	\$65,555	\$11,743	\$3,409	\$16,131	\$10,393	\$54,427	\$13,374	\$14,538	\$26,219	\$5,122
San Antonio - 2	\$110,261	\$24,021	\$183,790	\$44,542	\$8,359	\$2,182	\$5,746	\$7,754	\$15,234	\$9,978	\$6,698	\$19,560	\$2,380
Rural - 2	\$23,148	\$3,030	\$51,300	\$14,935	\$2,653	\$253	\$981	\$2,249	\$1,326	\$2,894	\$871	\$5,674	\$269
Rural - 3	\$10,402	\$1,046	\$32,618	\$9,887	\$192	\$105	\$1,451	\$1,443	\$1,555	\$1,857	\$396	\$3,641	\$127
State Totals	\$1,235,053,331	\$207,483,107	\$993,942,580	\$209,937,634	\$121,870,220	\$20,449,223	\$83,350,455	\$40,880,616	\$322,855,788	\$52,808,409	\$142,500,979	\$103,131,472	\$50,282,285

**SBC Universal Service Study**  
**Business Monthly Per Line Operating Margin**

**Report 7**  
**December 14, 1998**

Texas		Business Universal Service									Vertical Service Gross Margin per Line	Intrastate Toll Gross Margin per Line	Intrastate Switched Access Gross Margin per Line	Interstate Switching and Transport Margin per Line	Interstate CCL Revenue per Line	Total Business Operating Margin per Line	
		Total Monthly Universal Service Cost/Revenue Calculations			Intrastate Monthly Universal Service Cost/Revenue Calculations			Interstate Monthly Universal Service Cost/Revenue Calculations									
Wire Center	Business Lines	Average Cost per Line	Average Revenue per Line	Gross Margin per Line	Average Cost per Line	Average Revenue per Line	Intrastate Gross Margin per Line	Average Cost per Line	Average Revenue per Line	Interstate Gross Margin per Line	Report 5: F - G	Report 5: H - I	Report 5: J - K	Report 5: L - M	Report 5: N	D + E - L M + N - O	
		A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P
Houston - 1	56,199	\$22.33	\$72.78	\$50.44	\$18.37	\$66.94	\$48.56	\$3.96	\$5.84	\$1.88	\$3.53	\$0.43	\$6.05	\$1.91	\$1.44	\$63.80	
Dallas - 1	20,923	\$25.92	\$39.48	\$13.56	\$21.18	\$33.76	\$12.58	\$4.74	\$5.72	\$0.98	\$4.19	\$1.16	\$6.30	\$3.61	\$2.24	\$31.06	
Dallas - 2	15,971	\$26.11	\$39.70	\$13.59	\$21.22	\$33.89	\$12.67	\$4.89	\$5.81	\$0.92	\$2.93	\$1.45	\$5.17	\$1.82	\$1.56	\$26.53	
Houston - 2	7,598	\$38.59	\$52.93	\$14.34	\$33.04	\$47.15	\$14.11	\$5.55	\$5.78	\$0.23	\$3.30	(\$0.42)	\$1.13	(\$1.85)	\$0.56	\$17.04	
San Antonio - 1	50,535	\$41.88	\$40.63	(\$1.25)	\$35.86	\$34.55	(\$1.31)	\$6.01	\$6.07	\$0.06	\$2.80	\$0.01	\$16.60	\$2.66	\$1.74	\$22.56	
Austin	10,733	\$46.95	\$36.95	(\$10.00)	\$37.49	\$31.10	(\$6.39)	\$9.46	\$5.85	(\$3.60)	\$3.18	(\$0.26)	\$10.57	\$0.70	\$1.81	\$6.01	
Rural - 1	486	\$52.48	\$28.78	(\$23.70)	\$41.24	\$22.68	(\$18.56)	\$11.24	\$6.11	(\$5.13)	\$1.43	\$0.98	\$7.04	(\$2.00)	\$0.88	(\$15.37)	
San Antonio - 2	311	\$61.18	\$35.98	(\$25.20)	\$49.25	\$29.54	(\$19.70)	\$11.94	\$6.44	(\$5.50)	\$1.66	(\$0.54)	\$1.41	(\$3.45)	\$0.64	(\$25.48)	
Rural - 2	36	\$153.32	\$60.60	(\$92.73)	\$118.75	\$53.58	(\$65.17)	\$34.57	\$7.01	(\$27.56)	\$5.56	(\$2.94)	(\$3.63)	(\$11.12)	\$0.62	(\$104.23)	
Rural - 3	15	\$236.14	\$63.60	(\$172.54)	\$181.21	\$57.79	(\$123.42)	\$54.93	\$5.81	(\$49.12)	\$0.48	\$0.04	(\$1.68)	(\$18.03)	\$0.70	(\$191.32)	



**SBC Universal Service Study  
Business Annual Operating Margin**

**Report 8  
December 14, 1998**

<b>Texas</b>			<b>Universal Service</b>								
<b>Wire Center</b>	<b>Business Lines</b>	<b>Total Lines</b>	<b>Intrastate Gross Margin</b>	<b>Interstate Gross Margin</b>	<b>Total Universal Service Gross Margin</b>	<b>Vertical Service Gross Margin</b>	<b>Intrastate Toll Gross Margin</b>	<b>Intrastate Switched Access Gross Margin</b>	<b>Interstate Switching and Transport Margin</b>	<b>Interstate CCL Revenue</b>	<b>Total Business Operating Margin</b>
			<i>A * (Report 7: G) * 12 months</i>	<i>A * (Report 7: J) * 12 months</i>	<i>A * (Report 7: D) * 12 months</i>	<i>A * (Report 7: K) * 12 months</i>	<i>A * (Report 7: L) * 12 months</i>	<i>A * (Report 7: M) * 12 months</i>	<i>A * (Report 7: N) * 12 months</i>	<i>Report 6: M</i>	<i>E + F + G + H + I + J</i>
	<i>A</i>	<i>B</i>	<i>C</i>	<i>D</i>	<i>E</i>	<i>F</i>	<i>G</i>	<i>H</i>	<i>I</i>	<i>J</i>	<i>K</i>
Houston - 1	56,199	118,486	\$32,751,364	\$1,267,671	\$34,019,035	\$2,382,846	\$289,267	\$4,078,827	\$1,289,222	\$969,972	\$43,029,169
Dallas - 1	20,923	55,775	\$3,159,086	\$245,430	\$3,404,516	\$1,051,133	\$290,650	\$1,582,230	\$906,312	\$562,589	\$7,797,430
Dallas - 2	15,971	56,938	\$2,427,395	\$177,092	\$2,604,487	\$562,434	\$277,324	\$991,645	\$348,178	\$299,809	\$5,083,877
Houston - 2	7,598	20,056	\$1,286,232	\$20,885	\$1,307,117	\$300,621	(\$38,657)	\$102,665	(\$168,481)	\$50,754	\$1,554,018
San Antonio - 1	50,535	72,036	\$793,085	\$36,567	(\$756,519)	\$1,696,753	\$6,671	\$10,064,942	\$1,614,994	\$1,054,250	\$13,681,091
Austin	10,733	43,040	(\$823,286)	(\$464,152)	(\$1,287,438)	\$409,165	(\$34,092)	\$1,361,442	\$90,712	\$233,726	\$773,515
Rural - 1	486	2,223	(\$108,250)	(\$29,941)	(\$138,191)	\$8,334	\$5,738	\$41,052	(\$11,681)	\$5,122	(\$89,625)
San Antonio - 2	311	3,989	(\$73,529)	(\$20,522)	(\$94,050)	\$6,177	(\$2,007)	\$5,256	(\$12,862)	\$2,380	(\$98,107)
Rural - 2	36	249	(\$28,152)	(\$11,905)	(\$40,057)	\$2,400	(\$1,268)	(\$1,568)	(\$4,803)	\$269	(\$45,027)
Rural - 3	15	105	(\$22,216)	(\$8,841)	(\$31,058)	\$87	\$7	(\$302)	(\$3,245)	\$127	(\$34,384)
<b>State Totals</b>	<b>2,915,101</b>	<b>8,719,326</b>	<b>\$241,110,751</b>	<b>(\$2,454,527)</b>	<b>\$238,656,224</b>	<b>\$101,220,997</b>	<b>\$42,469,839</b>	<b>\$270,047,379</b>	<b>\$39,369,507</b>	<b>\$50,262,285</b>	<b>\$742,026,231</b>

*This information has been obtained from company data and has been to maintain its confidentiality.*

**SBC Universal Service Study**  
**Total Office Annual Switched Operating Margin**

**Report 9**  
**December 14, 1998**

<b>Texas</b>	<b>Residence</b>			<b>Business</b>			<b>Total Wire Center Switched Operating Margin</b>
<b>Wire Center</b>	<b>Total Universal Service Gross Margin</b>	<b>Contribution from Vertical Services, Toll, and Access</b>	<b>Total Residence Operating Margin</b>	<b>Total Universal Service Gross Margin</b>	<b>Contribution from Vertical Services, Toll, and Access</b>	<b>Total Business Operating Margin</b>	
	<i>Report 4: E</i>	<i>Report 4: F+G+H+I+J</i>	<i>Report 4: K</i>	<i>Report 8: E</i>	<i>Report 8: F+G+H+I+J</i>	<i>Report 8: K</i>	<i>G+I</i>
	<i>A</i>	<i>B</i>	<i>C</i>	<i>D</i>	<i>E</i>	<i>F</i>	<i>G</i>
Houston - 1	(\$3,469,244)	\$12,654,472	\$9,185,228	\$34,019,035	\$9,010,134	\$43,029,169	\$52,214,397
Dallas - 1	(\$3,045,561)	\$6,248,909	\$3,203,348	\$3,404,516	\$4,392,914	\$7,797,430	\$11,000,778
Dallas - 2	(\$3,155,892)	\$6,660,710	\$3,504,818	\$2,604,487	\$2,479,389	\$5,083,877	\$8,588,695
Houston - 2	(\$3,244,855)	\$2,428,860	(\$815,995)	\$1,307,117	\$246,901	\$1,554,018	\$738,024
San Antonio - 1	(\$6,728,226)	\$4,922,914	(\$1,805,311)	(\$756,519)	\$14,437,610	\$13,681,091	\$11,875,780
Austin	(\$12,704,701)	\$4,046,436	(\$8,658,265)	(\$1,287,438)	\$2,060,954	\$773,515	(\$7,884,750)
Rural - 1	(\$781,119)	\$215,537	(\$565,581)	(\$138,191)	\$48,565	(\$89,625)	(\$655,207)
San Antonio - 2	(\$1,966,211)	\$67,160	(\$1,899,051)	(\$94,050)	(\$1,056)	(\$95,107)	(\$1,994,157)
Rural - 2	(\$339,115)	(\$3,088)	(\$342,203)	(\$40,057)	(\$4,970)	(\$45,027)	(\$387,230)
Rural - 3	(\$235,218)	(\$10,539)	(\$245,757)	(\$31,058)	(\$3,326)	(\$34,384)	(\$280,141)
<b>State Totals</b>	<b>(\$1,161,587,205)</b>	<b>\$962,592,162</b>	<b>(\$198,995,043)</b>	<b>\$238,656,224</b>	<b>\$503,370,007</b>	<b>\$742,026,231</b>	<b>\$543,031,188</b>

**SBC Universal Service Study  
Texas Annual Summary**

**Report 10  
December 14, 1998**

<b>Residence</b>						
<b>Total Universal Service Revenue</b>	<b>Total Universal Service Cost</b>	<b>Total Universal Service Gross Margin</b>	<b>Total Vertical Services, Toll and Access Revenue</b>	<b>Total Vertical Services, Toll and Access Cost</b>	<b>Total Contribution from Vertical Services, Toll, and Access</b>	<b>Total Residence Operating Margin</b>
<b>Report 2: Total A + B</b>	<b>Report 2: Total C + D</b>	<b>Report 2: Total E + G + I + K + M</b>	<b>Report 2: Total E + G + I + K + M</b>	<b>Report 2: Total F + H + J + L</b>	<b>Report 4: Total F + G + H + I + J</b>	<b>Report 4: Total K</b>
<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>	<b>F</b>	<b>G</b>
<b>\$1,276,397,256</b>	<b>\$2,437,984,461</b>	<b>(\$1,161,587,205)</b>	<b>\$1,401,485,632</b>	<b>\$438,893,470</b>	<b>\$962,592,162</b>	<b>(\$198,995,043)</b>

<b>Business</b>						
<b>Total Universal Service Revenue</b>	<b>Total Universal Service Cost</b>	<b>Total Universal Service Gross Margin</b>	<b>Total Vertical Services, Toll and Access Revenue</b>	<b>Total Vertical Services, Toll and Access Cost</b>	<b>Total Contribution from Vertical Services, Toll, and Access</b>	<b>Total Business Operating Margin</b>
<b>Report 6: Total A + B</b>	<b>Report 6: Total C + D</b>	<b>Report 6: Total E + G + I + K + M</b>	<b>Report 6: Total E + G + I + K + M</b>	<b>Report 6: Total F + H + J + L</b>	<b>Report 8: Total F + G + H + I + J</b>	<b>Report 8: Total K</b>
<b>H</b>	<b>I</b>	<b>J</b>	<b>K</b>	<b>L</b>	<b>M</b>	<b>N</b>
<b>\$1,442,536,438</b>	<b>\$1,203,880,214</b>	<b>\$238,656,224</b>	<b>\$720,439,726</b>	<b>\$217,069,719</b>	<b>\$503,370,007</b>	<b>\$742,026,231</b>

<b>Total</b>				
<b>Total Explicit Universal Service Funding</b>	<b>Miscellaneous Services, e.g., Directory, Cellular Interconnection, etc., Contributing to Universal Service</b>	<b>Total Switched Operating Revenues</b>	<b>Total Switched Operating Costs</b>	<b>Total Switched Return</b>
<b>O</b>	<b>P</b>	<b>A + D + H + K + O + P</b>	<b>B + E + I + L</b>	<b>Q - R</b>
<b>\$0</b>	<b>\$189,466,579</b>	<b>\$5,030,325,632</b>	<b>\$4,297,827,864</b>	<b>\$732,497,767</b>

## SBC Universal Service Study Texas Reconciliation

<b>Line 1. TUER * - Total Texas Operating Revenue</b> (TUER, Schedule I, Line 13, Column c)	<b>\$ 6,053,690,653</b>
<b>a. Less exclusions</b>	
Inter/Intrastate Special Access (Various Rev. Accts. From MR4a)	\$ 349,192,223
Inter/Intrastate Private Line (Various Rev. Accts. From MR4a)	\$ 92,620,449
Other Operating Revs (Accts. 5250, 5262, 5264.29W)	\$ 33,855,435
Non-Regulated (Acct. 5280)	\$ 483,390,067
Intrastate Access Expense net against Toll Revs. (Acct. 6540)	\$ 50,420,784
Rent Revenues included in Expenses (Acct. 5240)	\$ 13,628,045
SNFA & Miscellaneous (SACAS, Study Model)	\$ 20,715,862
Uncollectible for services not included in study	\$ (20,457,846)
<b>b. TUER - Total Texas Switched Operating Revenues</b> (Line 1 - Line 1a)	<b>\$ 5,030,325,634</b>
<b>c. Study - Total Texas Switched Revenues</b> (Report 10, Column P)	<b>\$ 5,030,325,632</b>
<b>d. Difference between TUER &amp; Study</b> (Line 1b - Line 1c)	<b>\$ 2</b>
 <b>Line 2. TUER - Total Texas Operating Expenses</b> (TUER, Schedule I, Line 24, Column c)	 <b>\$ (4,581,661,075)</b>
<b>a. Less exclusions</b>	
Inter/Intrastate Special Access & Private Line (SACAS, Study Model)	\$ (418,940,730)
Non-Regulated & SNFA (SACAS)	\$ (475,660,477)
Other Income & Expense (Accts. 7110, 7150, 7160)	\$ 2,988,664
Intrastate Access Expense net against Toll Revs. (Acct. 6540)	\$ (50,420,784)
<b>b. Plus inclusions</b>	
Contributions (Acct. 7370.2)	\$ (9,276,376)
Rent Revenues included in Expenses (Acct. 5240)	\$ 13,628,045
<b>c. TUER - Total Texas Switched Operating Expenses</b> (Line 2 - Line 2a + Line 2b)	<b>\$ (3,635,276,079)</b>
<b>d. Study - Total Texas Switched Operating Costs</b> (Report 10, Column Q)	<b>\$ (4,297,827,864)</b>
<b>e. TUER - Total Texas Switched Operating Taxes</b> (Total Texas Switched Operating Tax Reconciliation @ Line 4d)	<b>\$ (662,552,184)</b>
<b>f. Study - Total Texas Switched Operating Expenses</b> (Line 2d - Line 2e)	<b>\$ (3,635,275,680)</b>
<b>g. Difference between TUER &amp; Study **</b> (Line 2c - Line 2f)	<b>\$ (399)</b>

## SBC Universal Service Study Texas Reconciliation

### Line 3. Texas Switched Net Income

<b>a. TUEP ADJUSTED NET INCOME</b> (Line 1b + Line 2c + Line 2e)	<b>\$ 732,497,371</b>
<b>b. STUDY NET INCOME</b> (Line 1c + Line 2d)	<b>\$ 732,497,768</b>
<b>c. Difference between TUEP &amp; Study ***</b> (Line 3a - Line 3b)	<b>\$ (397)</b>

### Line 4. Total Texas Switched Operating Tax Reconciliation

<b>a. TUEP - Total Texas Operating Tax Expense</b> (TUEP, Schedule I, Line 32, Column c)	<b>\$ (680,554,298)</b>
<b>b. Less exclusions - Other Operating Taxes</b>	
Inter/Intrastate Special Access & Private Line (SACAS, Study Model)	\$ (49,249,750)
Non-Regulated & SNFA (SACAS)	\$ (4,749,079)
<b>c. Less exclusions - Federal Income Taxes</b>	
Inter/Intrastate Special Access & Private Line (SACAS, Study Model)	\$ (49,159,965)
Non-Regulated & SNFA (SACAS)	\$ (16,197,129)
Booked Deferred FIT (Acct. 7250)	\$ 101,353,809
<b>d. TUEP - Total Texas Switched Operating Taxes</b> (Line 4a - Line 4b - Line 4c)	<b>\$ (662,552,184)</b>

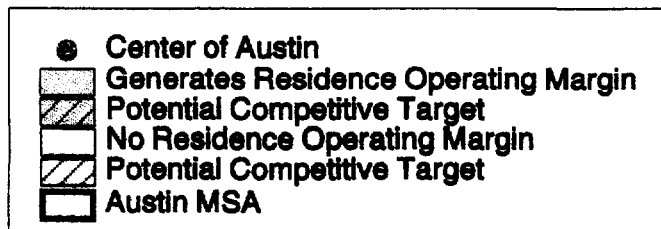
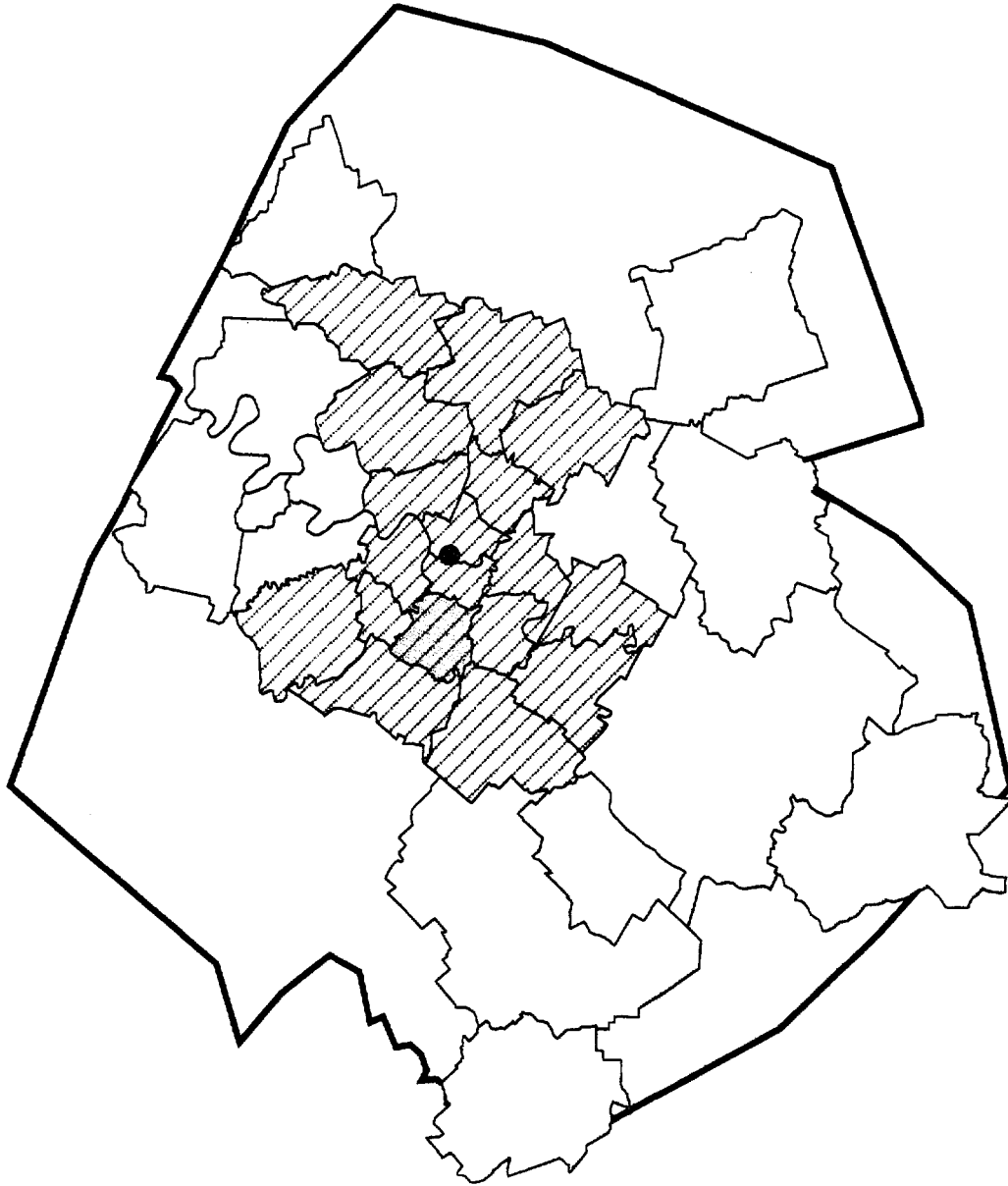
\* TUEP = Telephone Utilities Earnings Report of Southwestern Bell Telephone Co. to the Public Utility Commission of Texas for the twelve months ending December 31, 1997

\*\* Difference is due to operating cost rounding in the study model

\*\*\* Difference is attributable to differences identified @ Line 1d & Line 2g

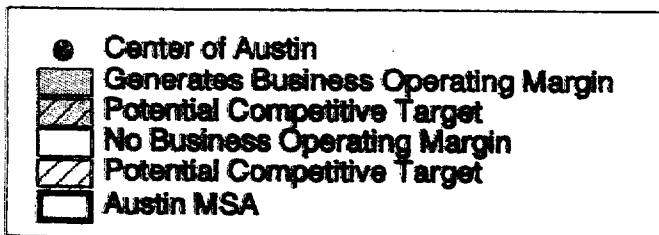
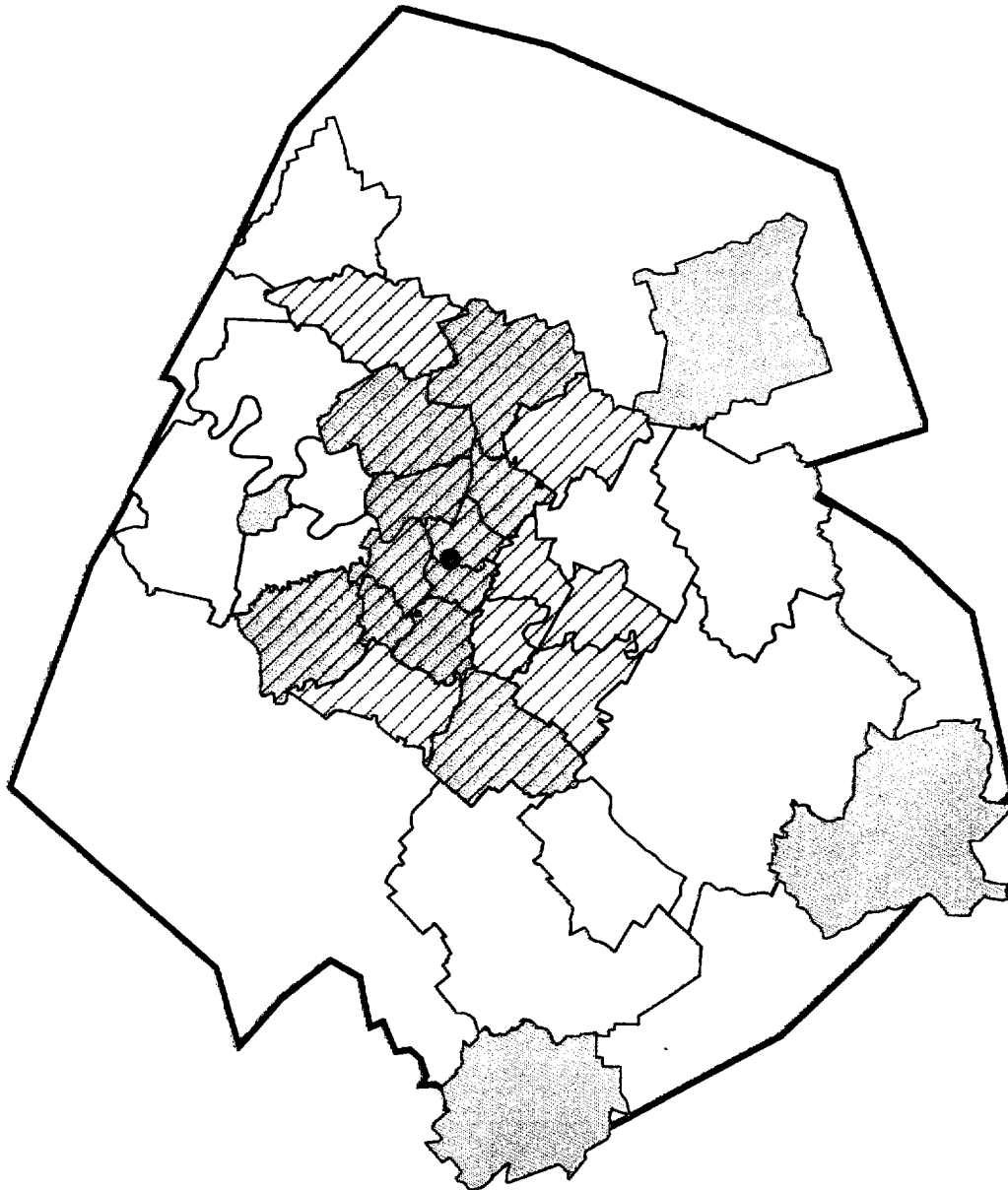
# Residence Universal Service

## Austin MSA - SWBT Wire Centers



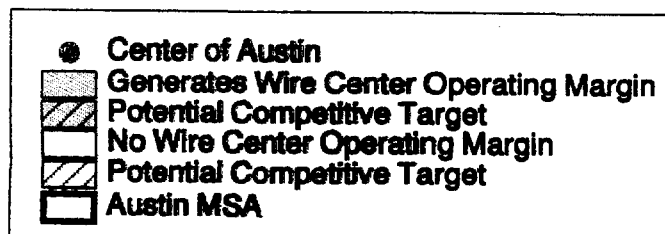
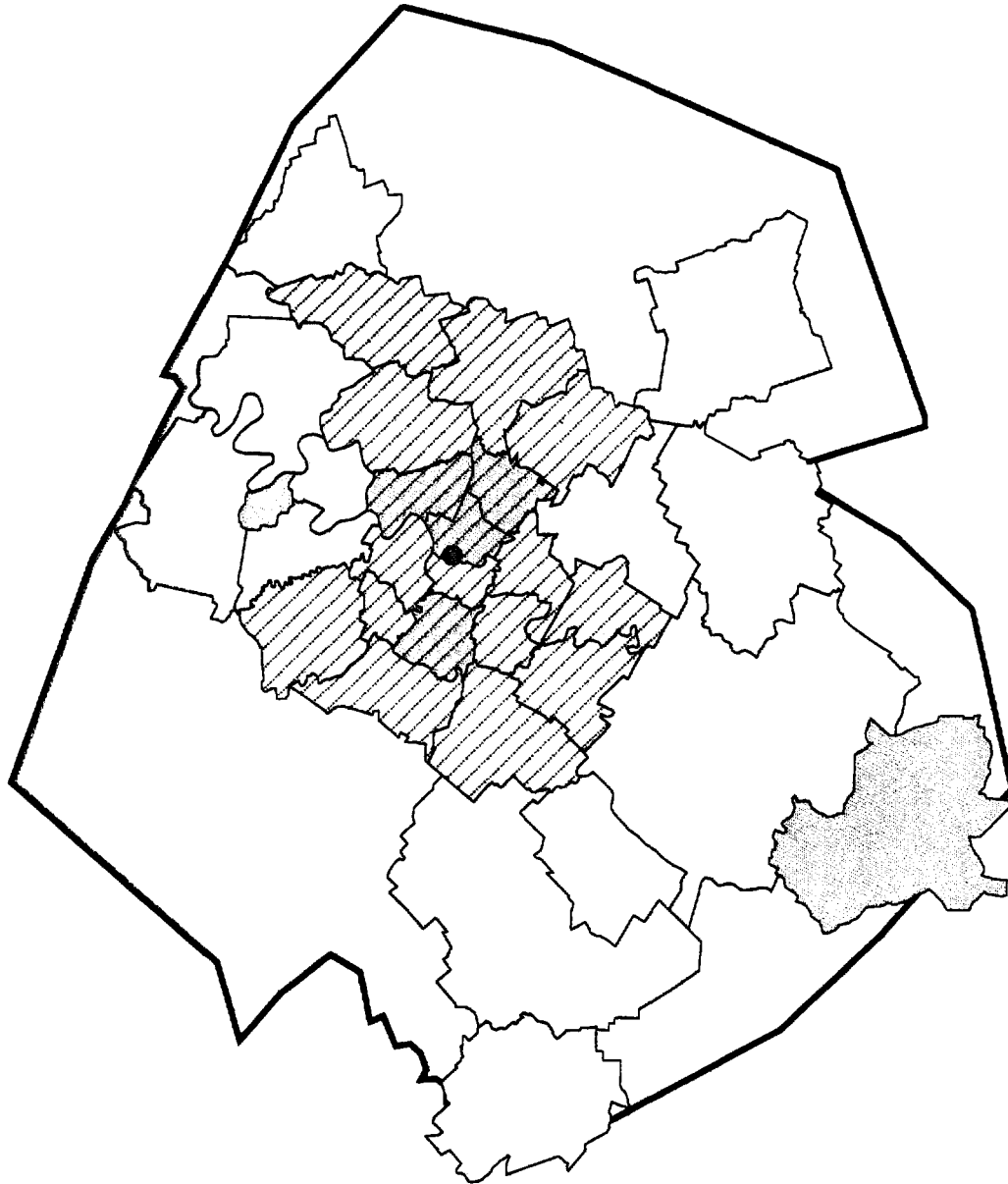
# Business Universal Service

## Austin MSA - SWBT Wire Centers



# Residence & Business Universal Service

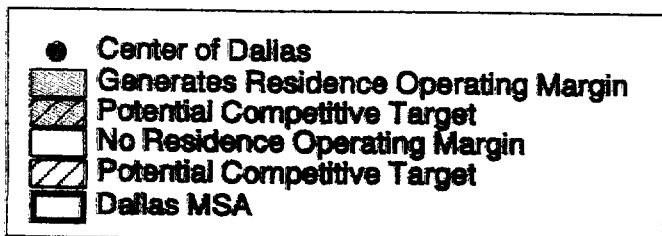
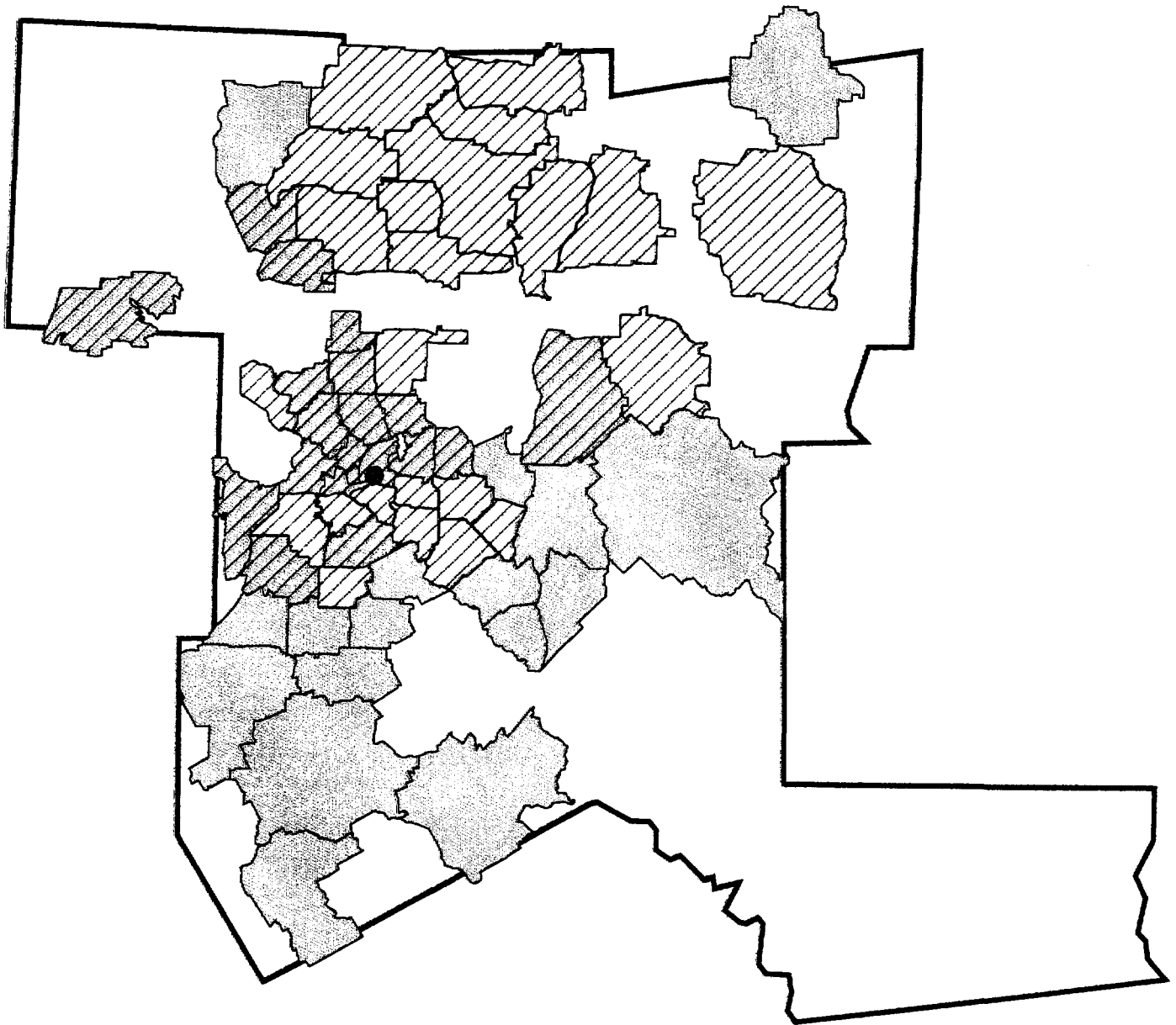
## Austin MSA - SWBT Wire Centers





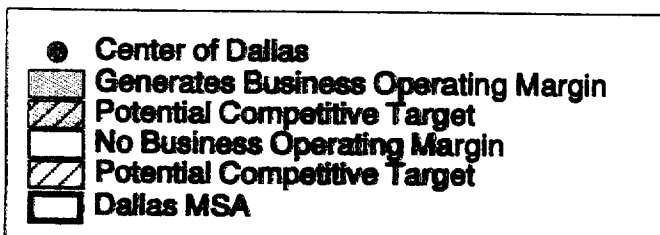
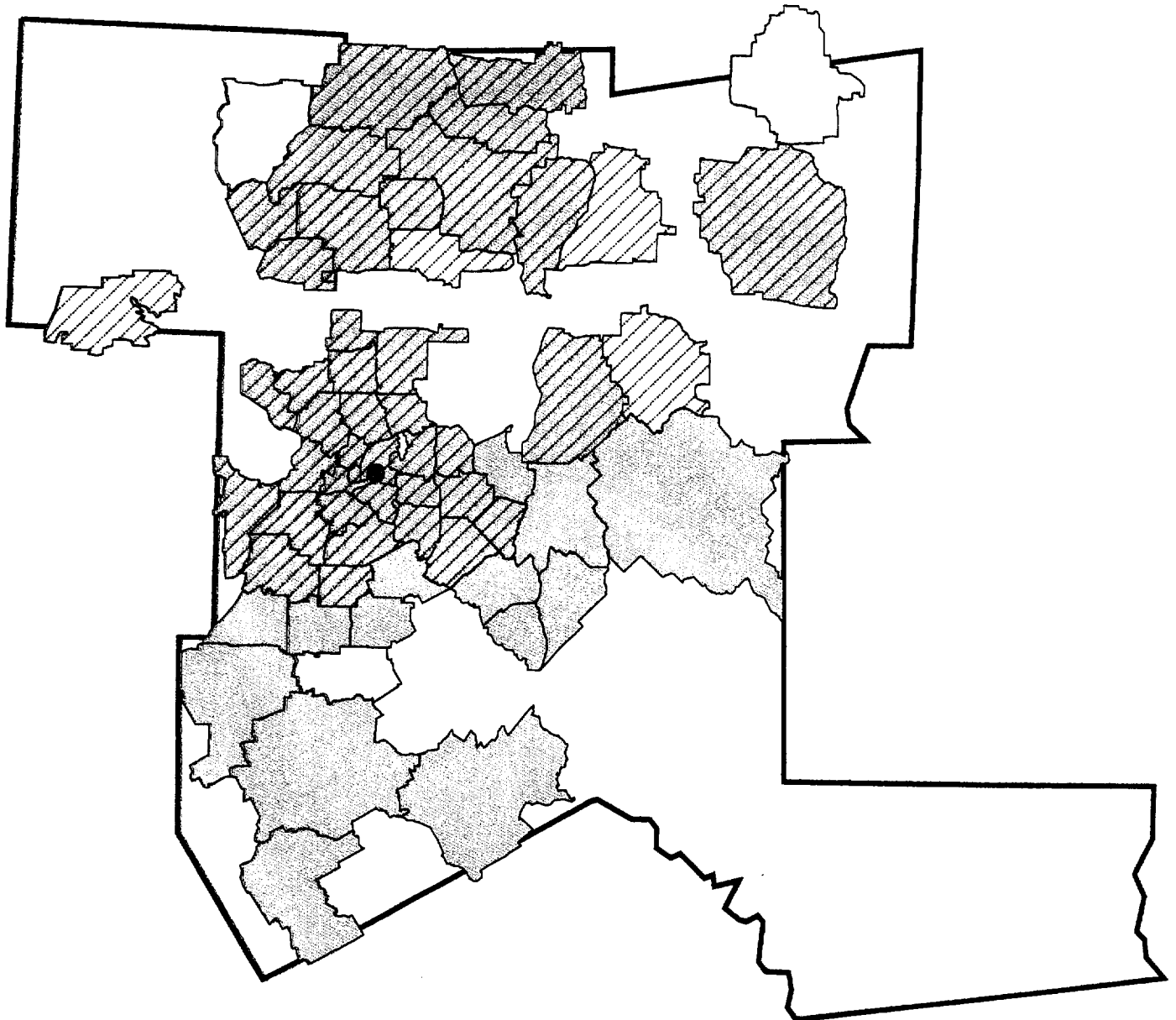
# Residence Universal Service

## Dallas MSA - SWBT Wire Centers



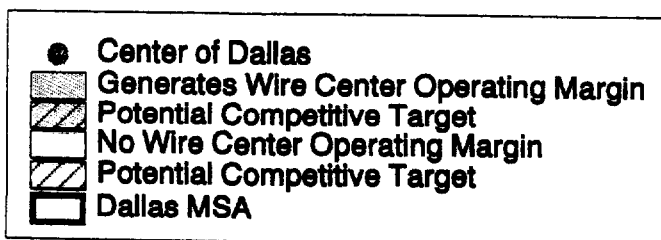
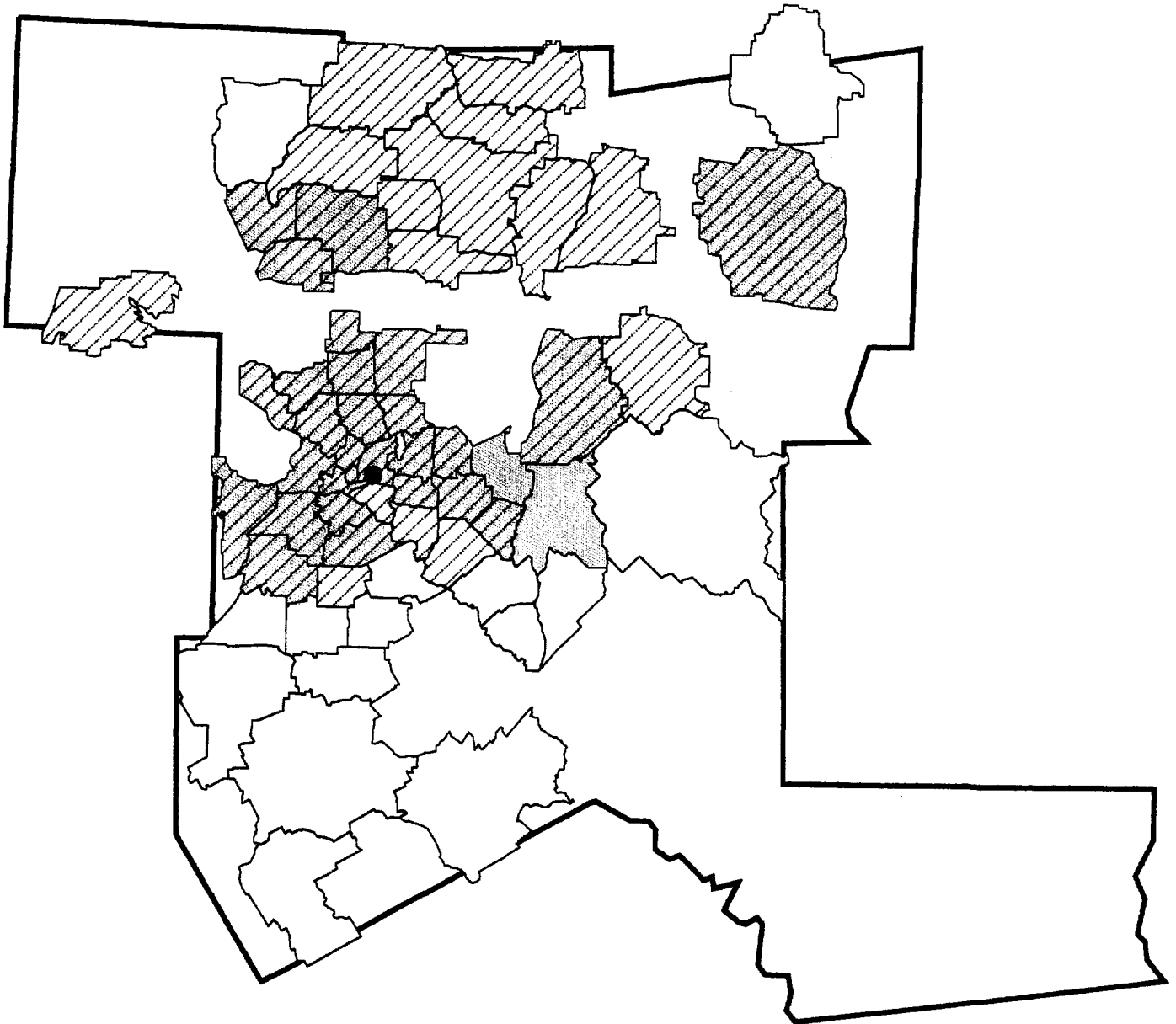
# Business Universal Service

## Dallas MSA - SWBT Wire Centers



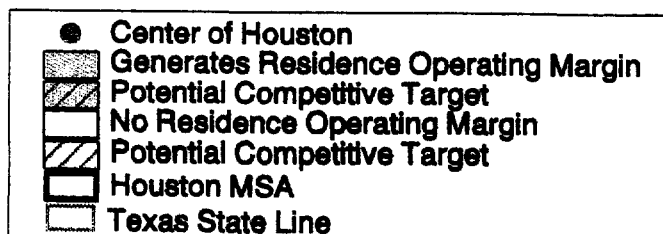
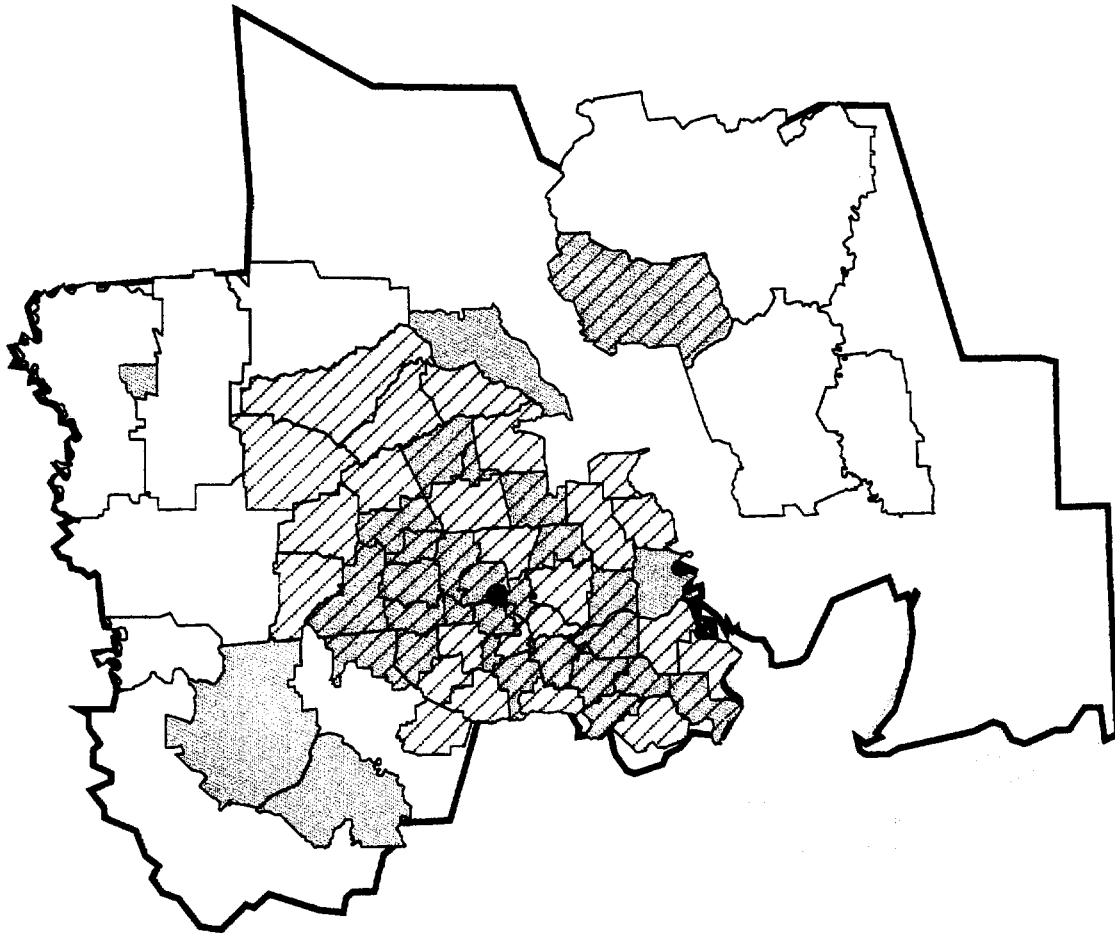
# Residence & Business Universal Service

## Dallas MSA - SWBT Wire Centers



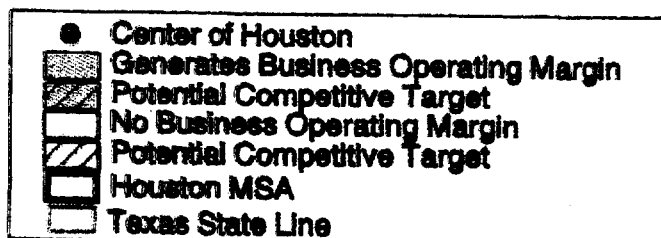
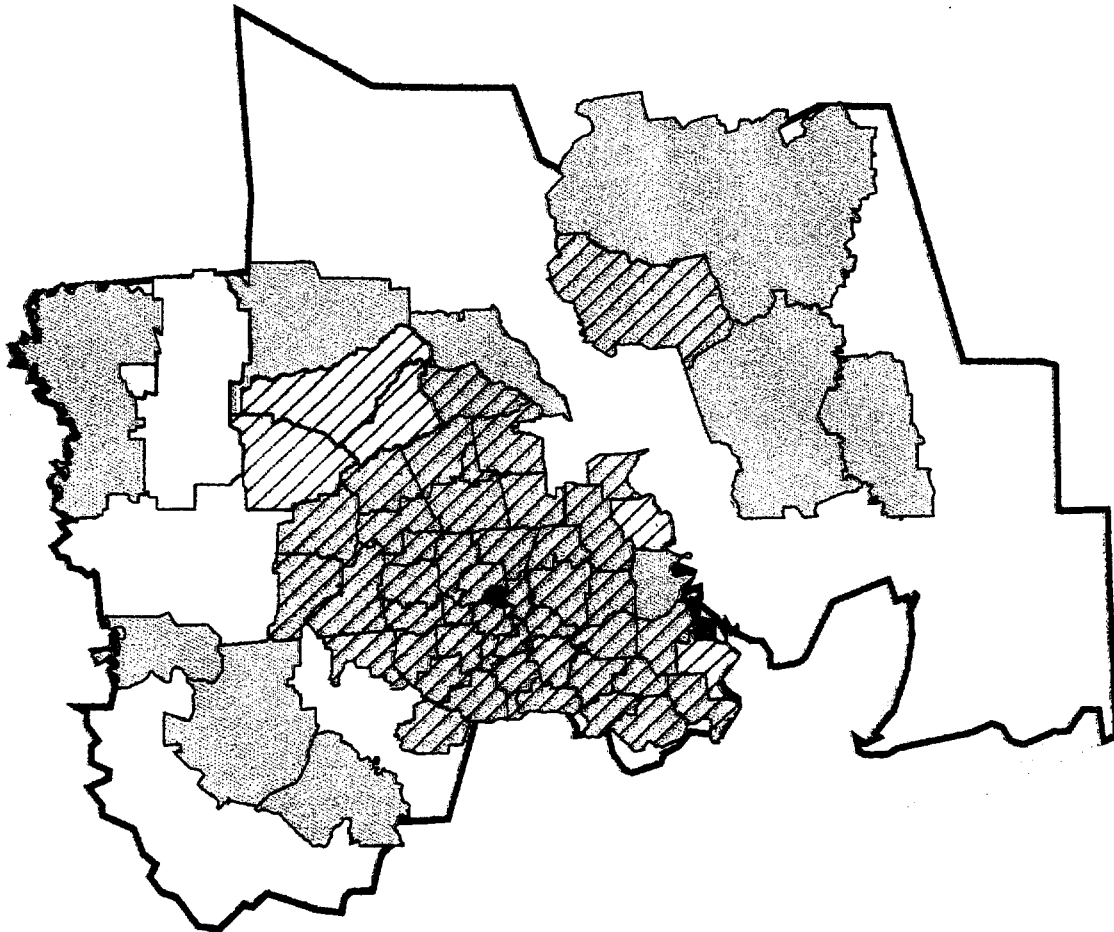
# Residence Universal Service

## Houston MSA - SWBT Wire Centers



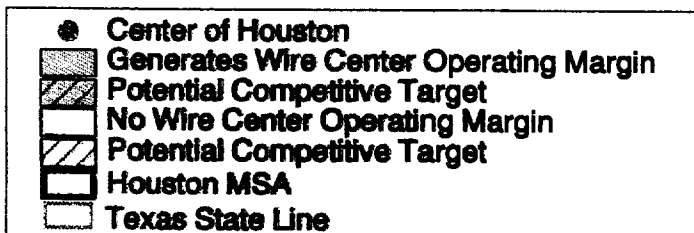
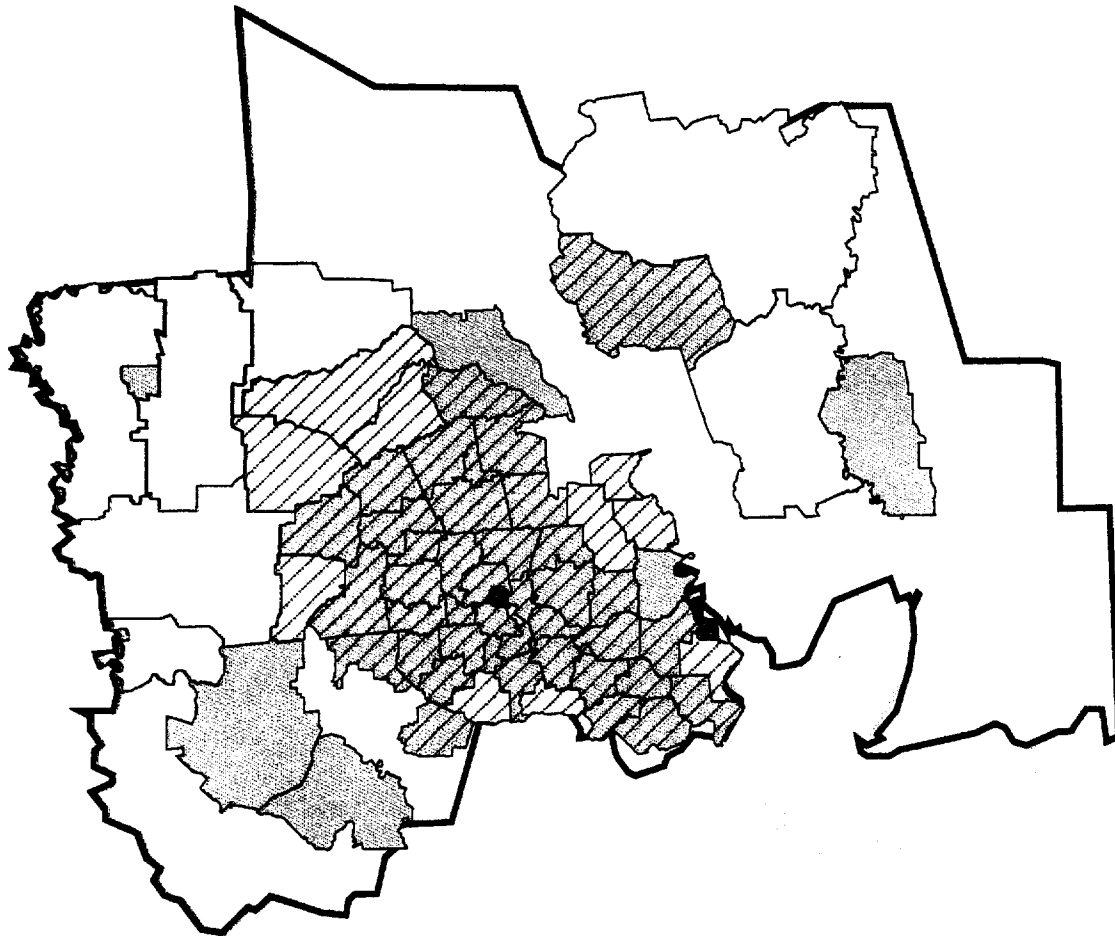
# Business Universal Service

## Houston MSA - SWBT Wire Centers



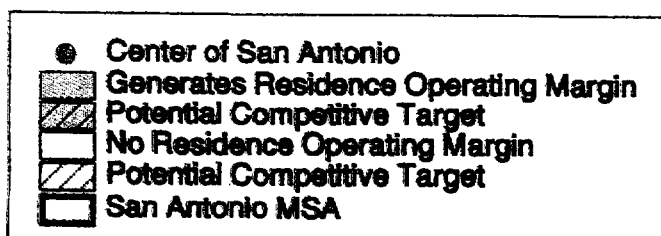
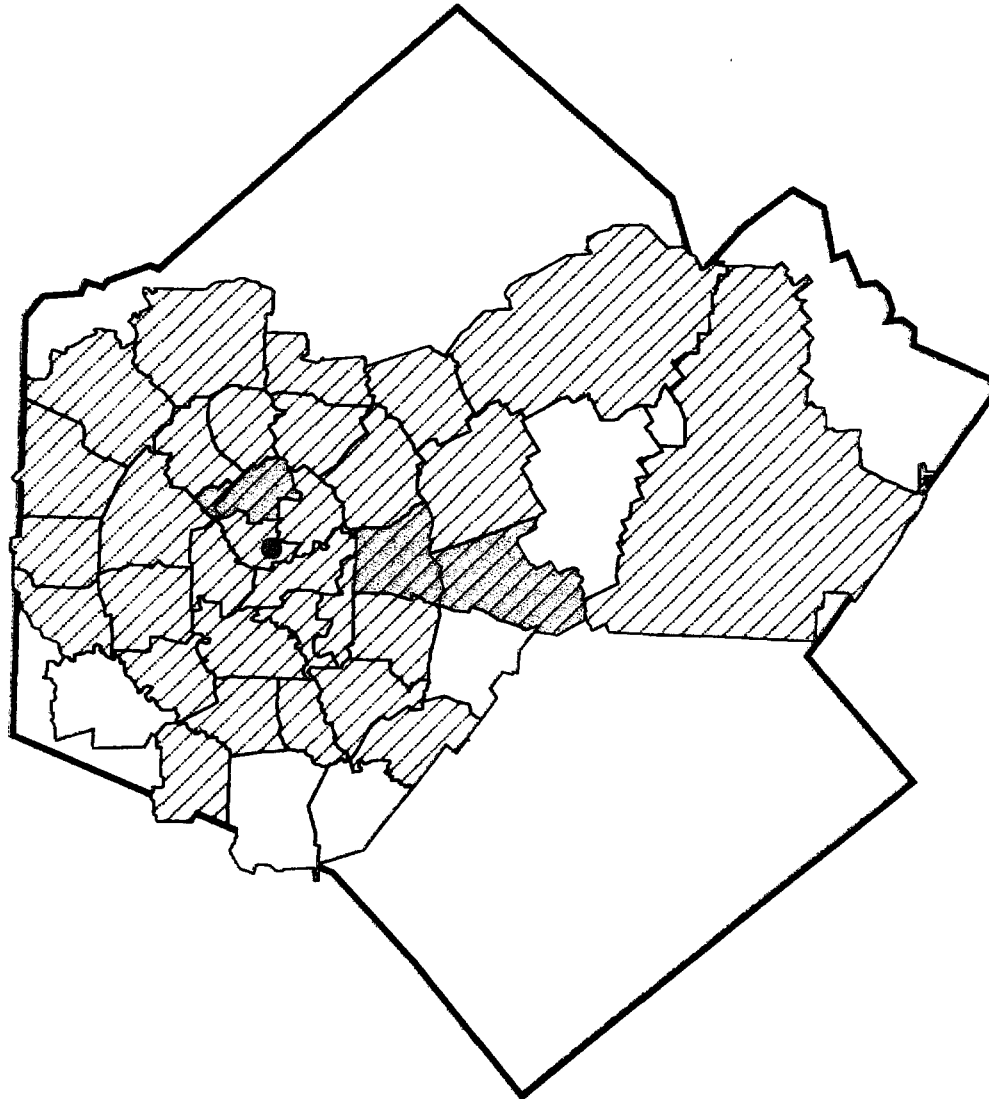
# Residence & Business Universal Service

## Houston MSA - SWBT Wire Centers



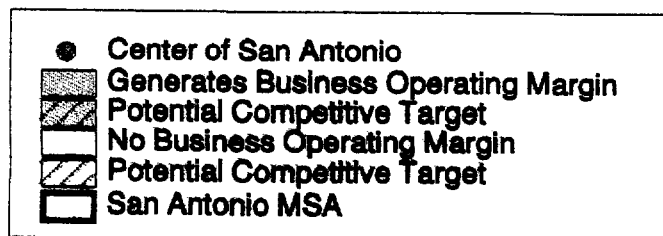
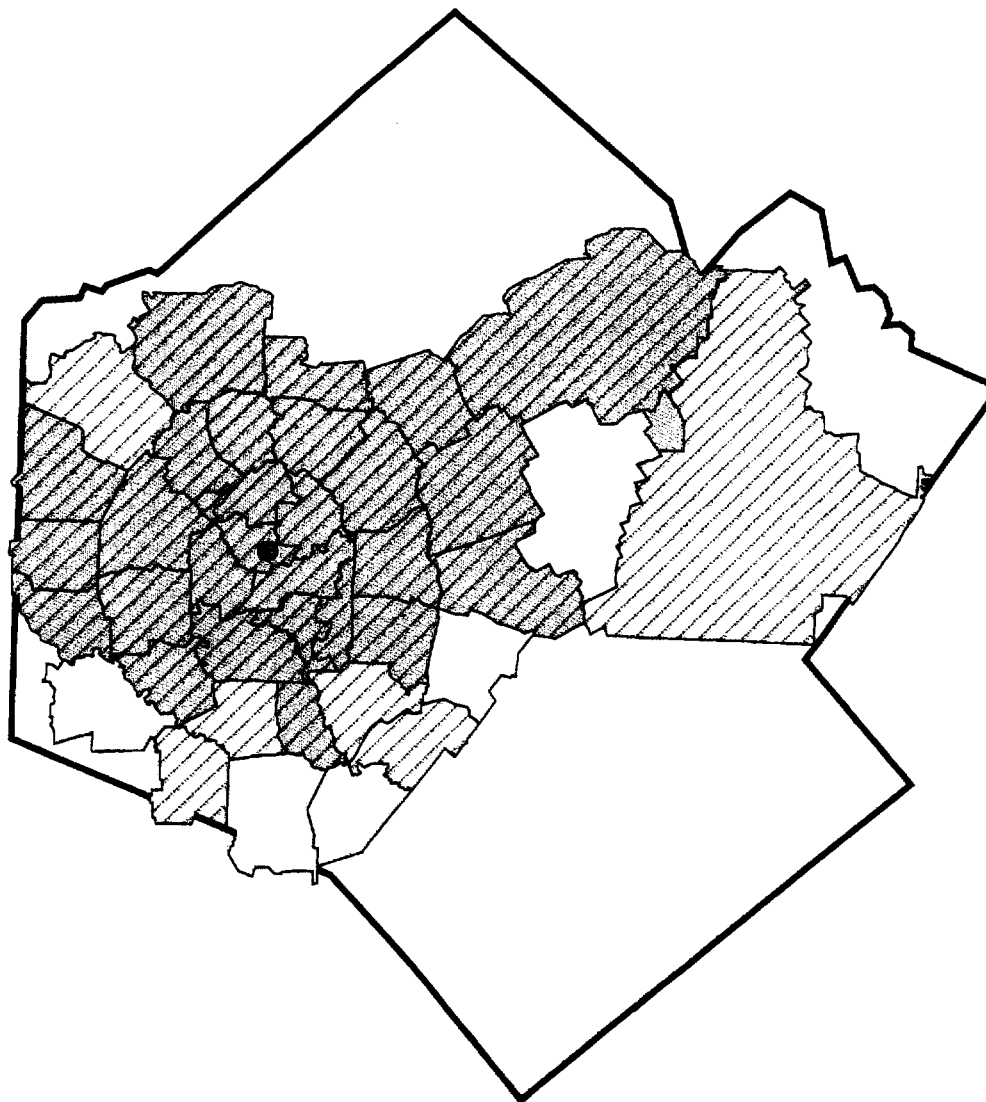
# Residence Universal Service

## San Antonio MSA - SWBT Wire Centers



# **Business Universal Service**

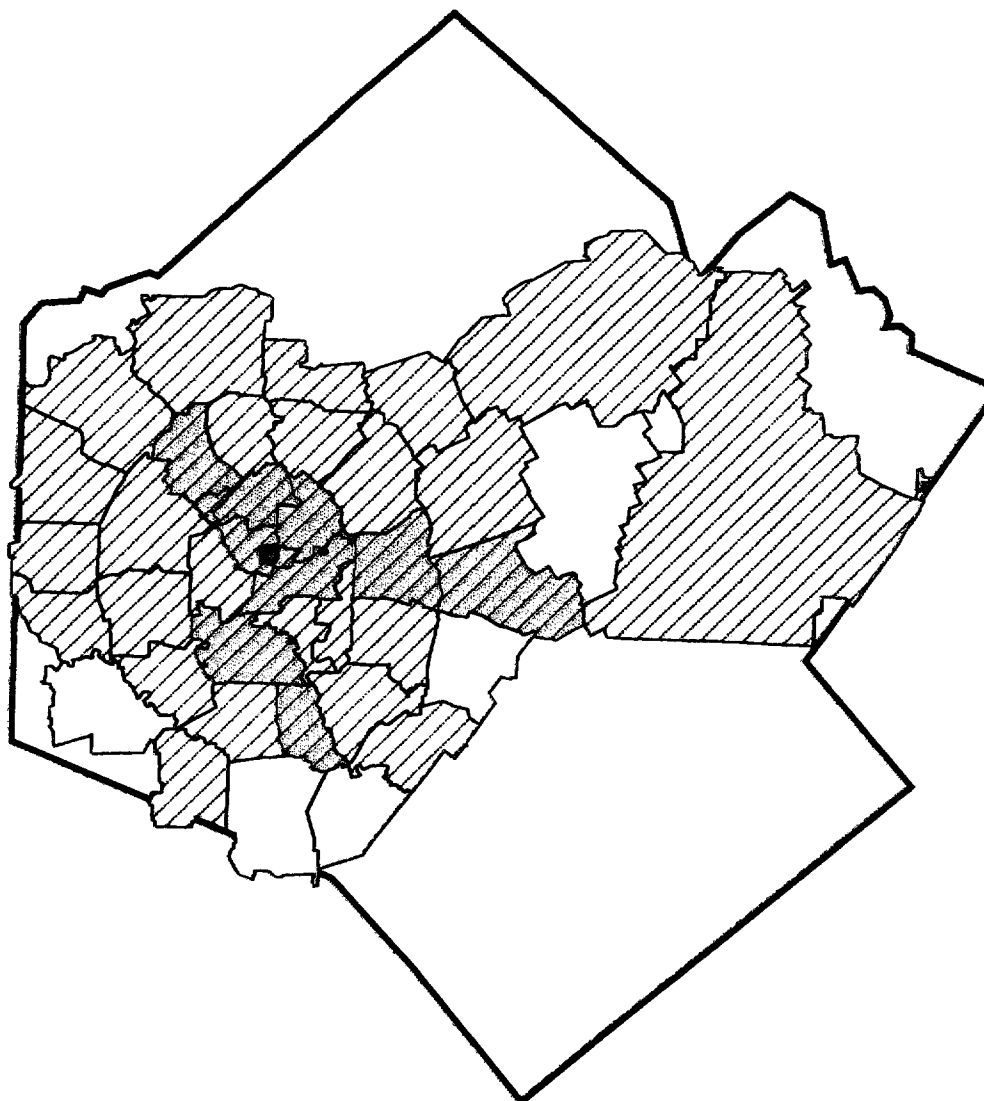
## **San Antonio MSA - SWBT Wire Centers**





# Residence & Business Universal Service

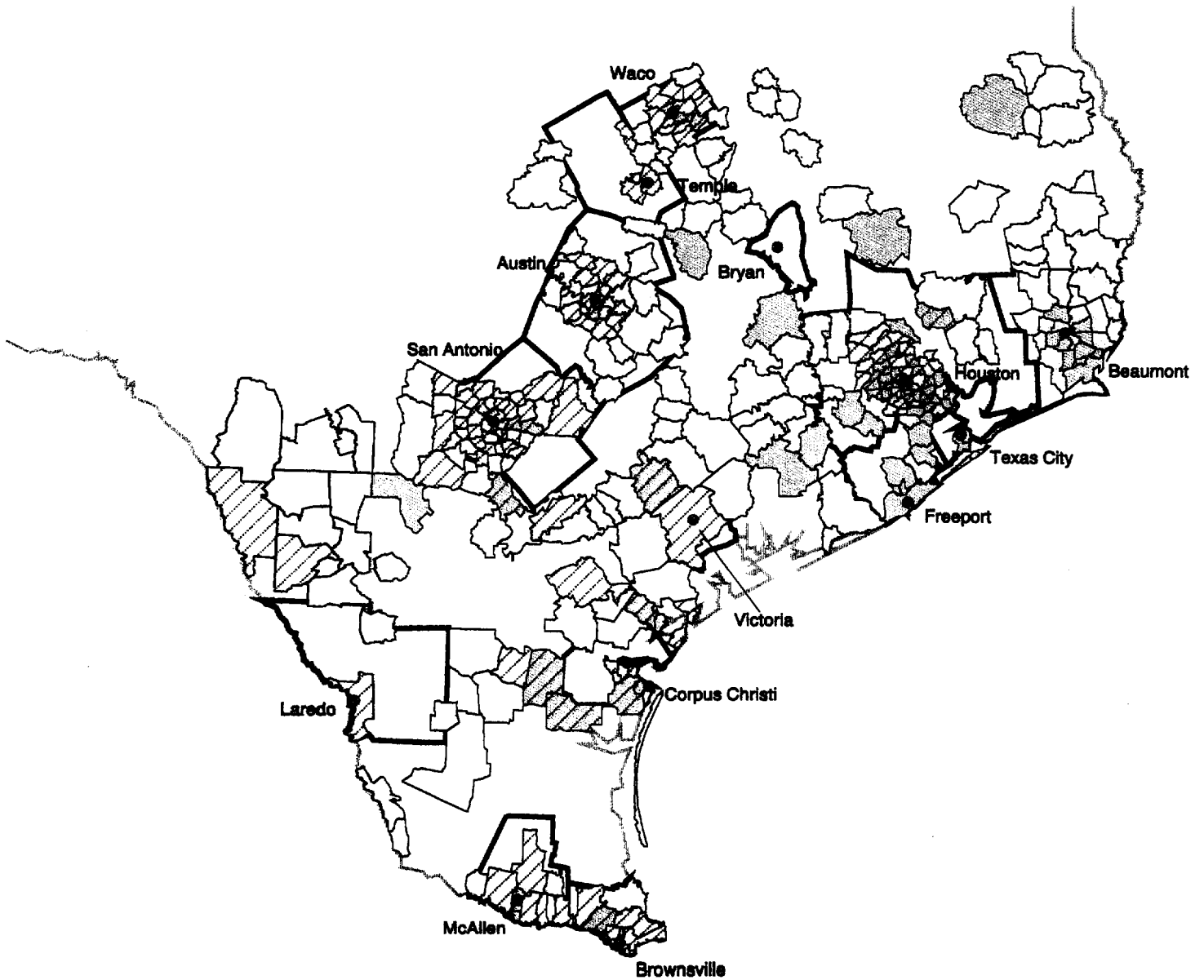
## San Antonio MSA - SWBT Wire Centers



- Center of San Antonio
- Generates Wire Center Operating Margin
- ▨ Potential Competitive Target
- No Wire Center Operating Margin
- ▧ Potential Competitive Target
- San Antonio MSA

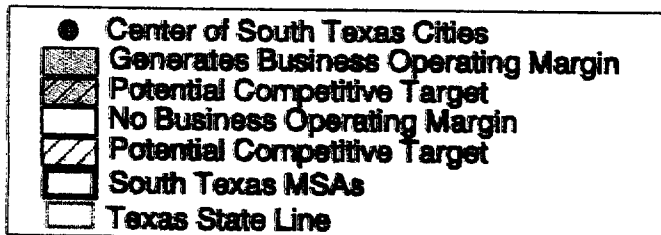
# Residence Universal Service

## South Texas MSAs - SWBT Wire Centers



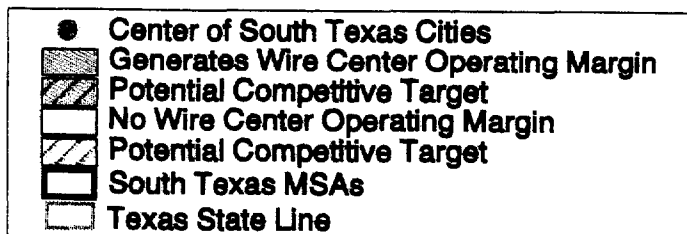
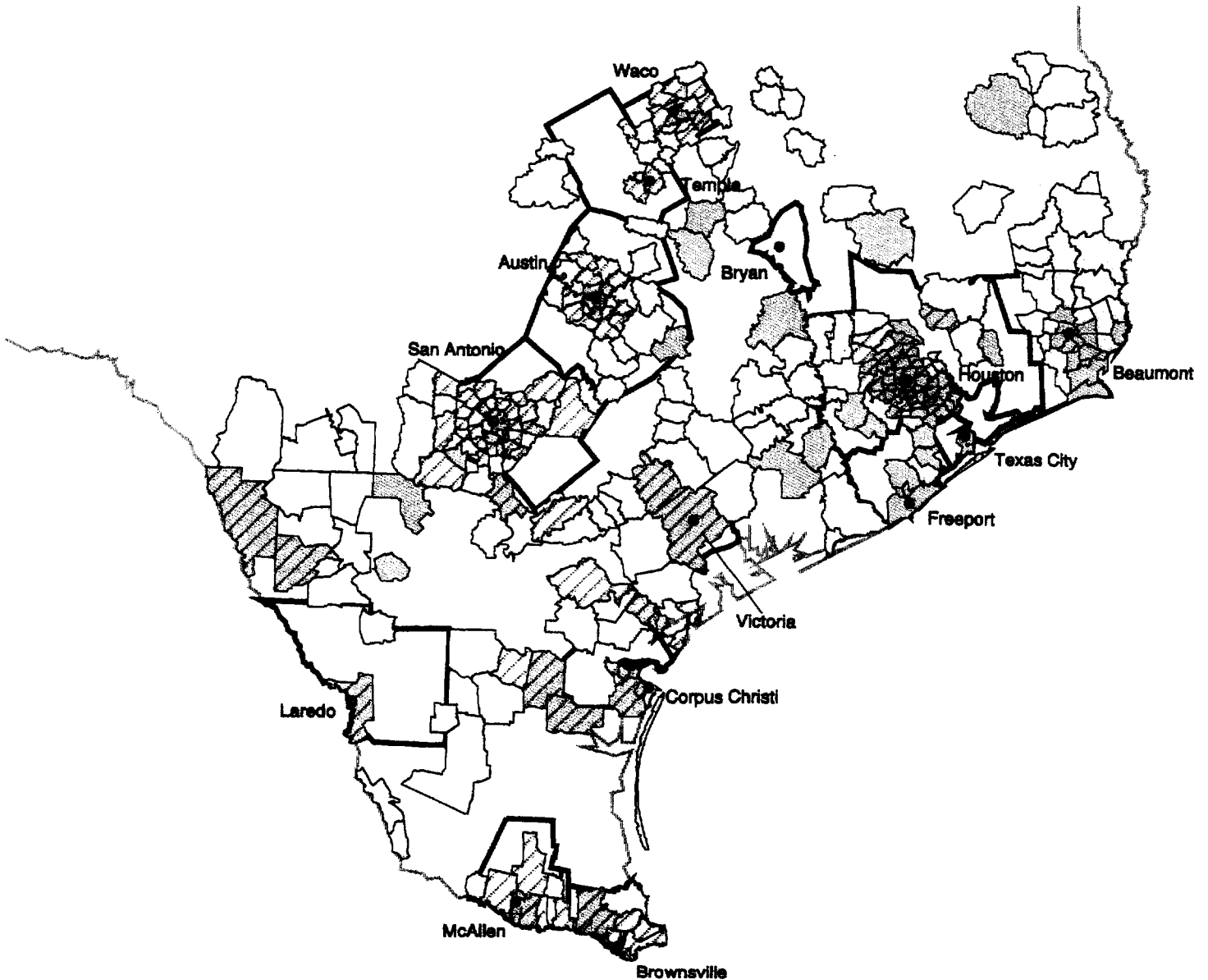
# Business Universal Service

## South Texas MSAs - SWBT Wire Centers



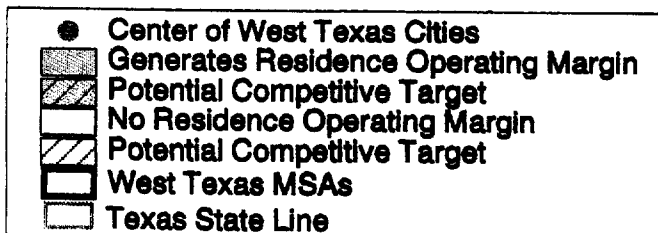
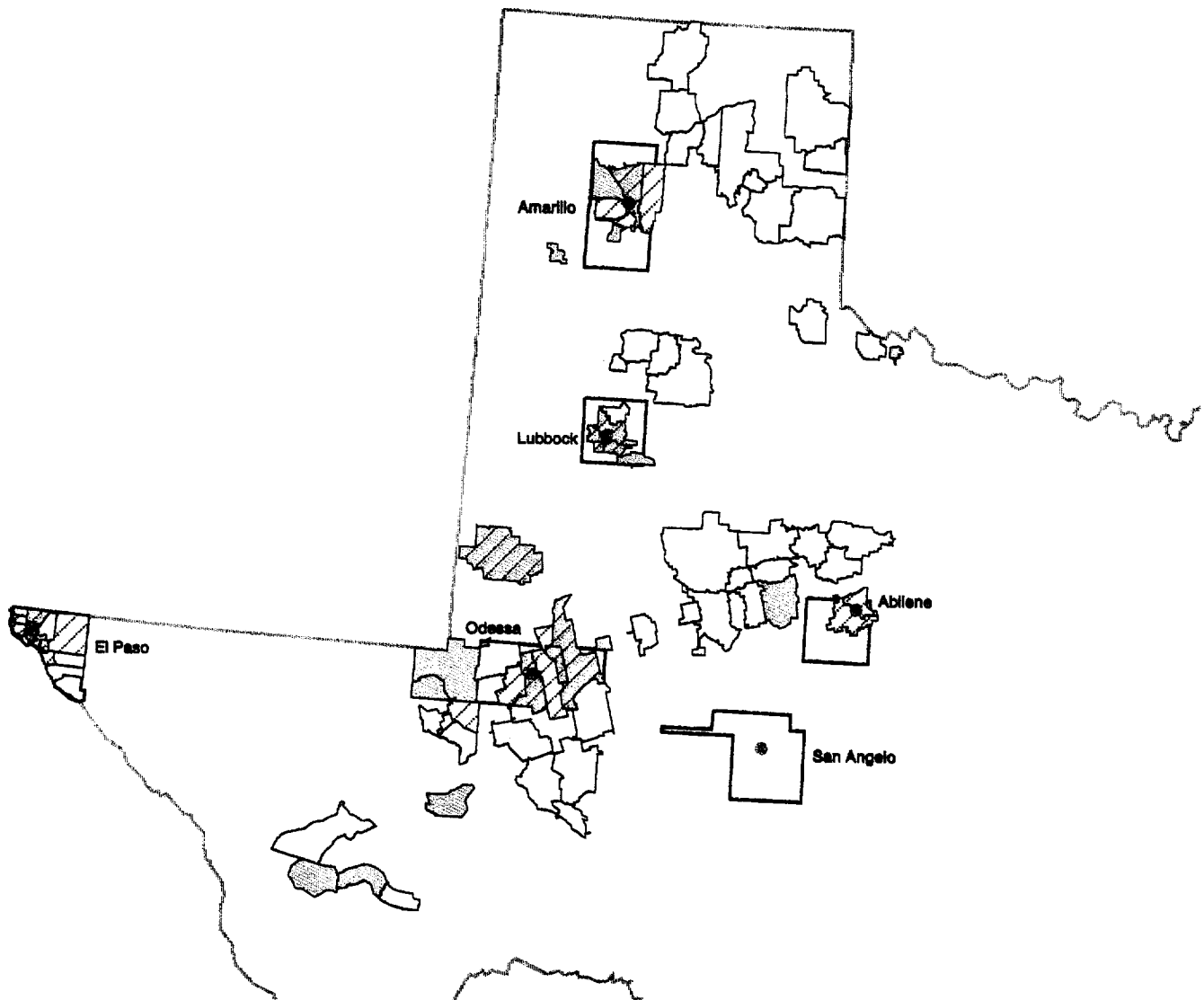
# Residence & Business Universal Service

## South Texas MSAs - SWBT Wire Centers



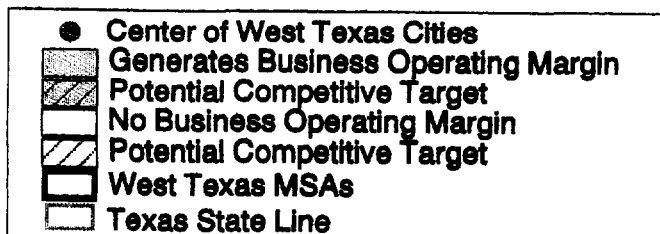
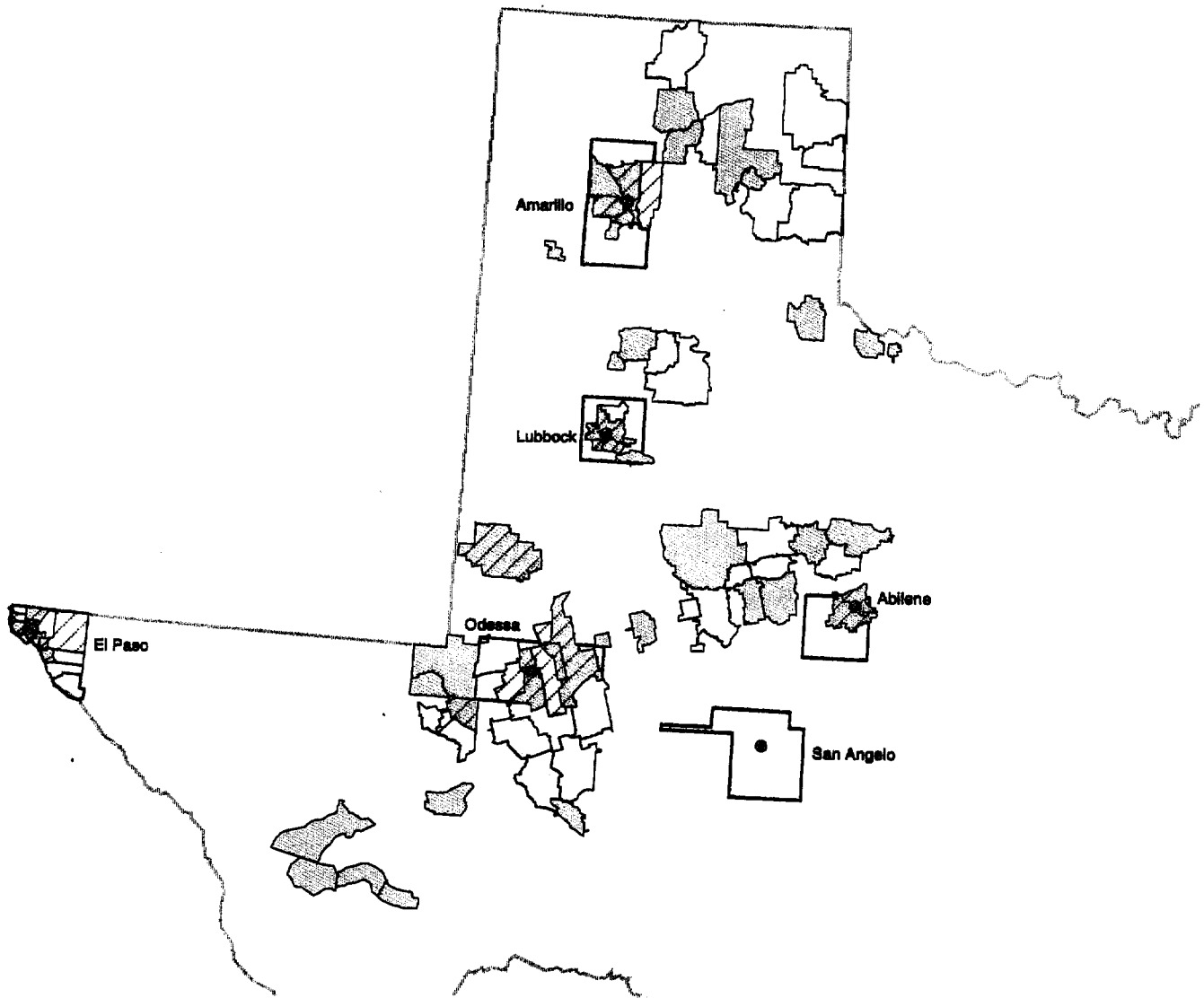
# Residence Universal Service

## West Texas MSAs - SWBT Wire Centers



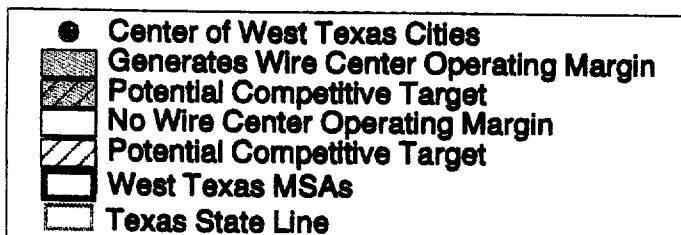
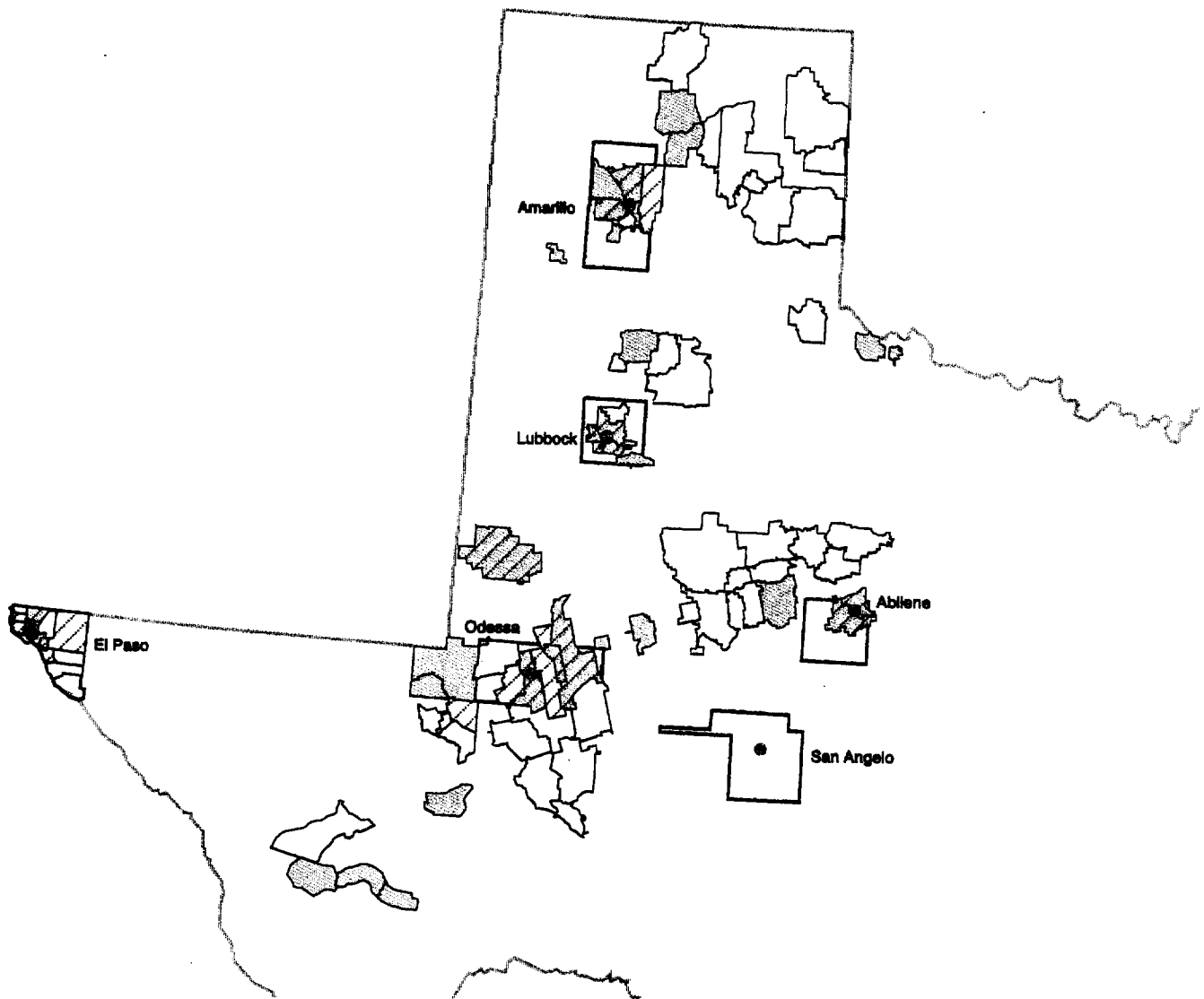
# Business Universal Service

## West Texas MSAs - SWBT Wire Centers



# Residence & Business Universal Service

## West Texas MSAs - SWBT Wire Centers



## ***SBC Universal Service Study***

### ***Conclusions***

- **Competitors have targeted the wire centers and business customers that support residence cost recovery**
- **FCC should provide a structure that permits the industry to maintain affordable universal service in a competitive environment**

*Access prices and unbundled network element prices that reflect the actual network and the actual costs of providing it*

*Deaveraging to produce more efficient prices and pricing flexibility to compete*

*Rational price cap productivity factor and price cap mechanism*

*Explicit universal service funding targeted only to customers residing in geographic areas where rates would otherwise be unaffordable – continued emphasis on Lifeline programs for the financially disadvantaged*

*Entry into new lines of business, e.g., interLATA long distance, as well as equitable rules for data services, will provide new revenue opportunities to maintain affordable universal service*